



Documentation for the Annual General Meeting

on Monday, 26th May 2008 at 2 p.m.
at Hotel Okura Amsterdam
Ferdinand Bolstraat 333,
1072 LH Amsterdam, The Netherlands

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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 rights to subscribe for shares for the Members of the Board of Directors;
- 2 Adoption of the audited accounts for the financial year 2007;
- 3 Approval of the result allocation, distribution and payment date;
- 4 Release from liability of the Members of the Board of Directors;
- 5 Appointment of the auditors for the financial year 2008;
- 6 Cancellation of shares repurchased by the Company; and
- 7 Renewal of the authorisation for the Board of Directors to repurchase shares of the Company.

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 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 2007

RESOLVED THAT the audited accounts for the accounting period from 1st January 2007 to 31st December 2007, as submitted to the Annual General Meeting by the Board of Directors, be and hereby are adopted.

THIRD RESOLUTION

Approval of the result allocation, distribution and payment date

RESOLVED THAT the net loss of €446 million, as shown in the income statement for the financial year 2007, shall be deducted from retained earnings and that a payment of a gross amount of €0.12 per share shall be made to the shareholders from distributable reserves on 4th June 2008.

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 2007, to the extent that their activity has been reflected in the audited annual accounts for the financial year 2007 or in the Report of the Board of Directors.

FIFTH RESOLUTION

Appointment of the auditors for the financial year 2008

RESOLVED THAT the Company's auditors for the accounting period being the financial year 2008 shall be Ernst & Young Accountants whose registered office is at Antonio Vivaldistraat 150, 1083 HP Amsterdam, The Netherlands, and KPMG Accountants N.V., whose registered office is at Fascinatio Boulevard 200, 3065 WB Rotterdam, The Netherlands.

SIXTH 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 1,291,381 shares, be cancelled and both the Board of Directors and the Chief Executive Officer be and hereby are authorised, with powers of substitution, to implement this resolution in accordance with Dutch law.

SEVENTH 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 4th May 2007 in its eleventh 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 2007 financial year;
- second, to present the financial statements of EADS for the 12 months ended 31st December 2007, to submit for your approval the accounts, the result allocation and the cash distribution for this period and to appoint the auditors for the financial year 2008;
- third, to release the Members of the Board from their liability for their activities during the financial year 2007; and
- finally, to approve the renewal of financial authorisations to the Board in respect of (i) the repurchase of shares of the Company, and (ii) the 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 2007, the same information for 2006 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 116,493 employees (at year-end 2007) and revenues of €39,123 billion in 2007, 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 & Security and (v) Astrium.

In 2007, EADS generated 77.2% of its revenues in the civil sector and 22.8% in the defence sector.

2. Main Events for 2007

2007 was a year of continued sales successes for EADS. With an order intake of more than €137 billion for the year, EADS' order backlog reached a historical high of €339.5 billion, driven by strong performances at Airbus and Eurocopter in particular. Airbus marked a major milestone in 2007 with the delivery of its 5,000th aircraft, including the first delivery of the A380 to launch customer Singapore Airlines. These commercial successes have, among others, had a positive impact on EADS' net cash position, creating a sound financial base for the future.

From a corporate governance perspective, 2007 also marked an important year in EADS' development. The Group's management structure was considerably simplified, with the appointment of a single Chairman and a single CEO, as well as an increased number of independent and respected Board members. New rules have revitalised the exchange between the Board members and management. The Board of Directors is committed to leading governance practices, an efficient and constructive decision-making process and increased transparency to stakeholders.

At the same time, the year 2007 was characterised by significant challenges in its key development programmes. Development on the A400M and NH90 programmes has been delayed, while Airbus continues to face a strong challenge in ramping up A380 production. With respect to the A400M programme in particular, EADS has announced a 6 to 12 month delay in first delivery with €1.4 billion of provisions recorded in 2007. The naval version of the NH90 is late, while the partnership with Agusta in charge of the weapon system is improving.

The U.S. dollar has lost 40% of its value against the Euro in five years. To face the Euro at \$1.35, Power8 was launched in February 2007. This programme has started to deliver results in 2007 with overachievement of the savings target and the selection of the preferred bidders for sites of Airbus aerostructures. As the U.S. dollar has further declined in value, EADS has to define additional measures to cope with this new situation and the associated risks.

EADS' business environment in 2007 was characterised by another strong year for the aviation industry. Despite these favourable market conditions, the overall business environment remains volatile. The appreciation of the Euro against the U.S. dollar has reached a level that was not foreseen and therefore increasingly places European companies at a competitive disadvantage, while high oil prices put pressure on

EADS' customers. In defence, procurement budgets are stabilising. At the same time, governmental initiatives to strengthen defence and homeland security capabilities in order to counter increasing threats may create new opportunities for the long-term. For space, a yearly growth of 2.5% until 2010 in European institutional business is expected, but the European space industry is currently waiting for decisions to be taken at the ministerial conference of ESA in November 2008 to create the needed momentum for the European space policy. Commercial space activities remain under high price pressure.

Revenues were roughly stable despite an unfavorable U.S. dollar impact amounting to €1.1 billion and lower defence revenues. Defence revenues would have grown, but for a €935 million shortfall of the A400M programme and a rough €400 million impact of MBDA's consolidation change at 37.5% instead of 50%. On a like for like comparison, all divisions are growing except MTA.

EBIT* dropped to €52 million, burdened by the A400M loss making contract provision, Power8 restructuring provisions, A380 losses and A350 launch charges. After striping out all one-timers, underlying EBIT* from recurring operations is improving.

Order intake surged, lifted mostly by Airbus' order stream, and backlog increased by a sharp 29% to record levels, despite a €20 billion negative revaluation hit at the deteriorated year-end U.S. dollar rate. The defence order book grew by 3% to €54.5 billion, driven by new contracts for the Eurofighter and NH90 programmes.

2007 surpassed Airbus' previous records in terms of both orders and deliveries, while also presenting major industrial challenges. Fast-growing airlines in the Asia-Pacific, India and the Middle East were the main drivers of new orders. Demand also remained strong from low cost and legacy carriers in Europe and the United States, which are modernising and expanding fleets. Airbus delivered 453 aircraft, 19 more aircraft compared to last year.

Reinforcing the order backlog, Airbus won 1,458 firm new gross orders. This exceeds Airbus' previous record of 1,111 orders in 2005, and represents a 51% market share for aircraft with more than 100 seats, both in terms of units and value. Net orders, after accounting for cancellations, stood at 1,341 in 2007. This represents 49% of the market by units and 48% by value. The A380 won 33 new firm gross orders, as existing customers reaffirmed their confidence with additional orders

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

and new customers confirmed the aircraft's strong appeal. At year-end, total firm orders for the A380 stood at 189. The A350 XWB received 290 firm orders from 12 customers beyond EADS' initial target for the year, showing the market's positive response to the design refinements, and that it fully meets long-range requirements.

The Military Transport Aircraft Division experienced delays in its flagship A400M heavy transport aircraft, which overshadowed the Division's other activities and depressed financial results. In October 2007, EADS announced a 6 to 12 month delay on the A400M programme. Action is currently being taken to tackle the root causes of slow development progress especially in engine and systems development, so re-establishing certainty in the aircraft's delivery schedule. Following the appointment of Carlos Suárez as the new MTA CEO in July, the Division was restructured in order to make its operations more integrated and to improve project management. MTA's medium-weight turboprop aircraft range had a good year. Defence forces from Poland to Colombia ordered a total of 11 C-295s, the Spanish Interior Ministry bought two CN-235s to perform border patrol missions and the U.S. Coast Guard's Deepwater programme ordered a further five CN-235s.

Saudi Arabia became the latest customer for the A330 Multi-Role Tanker Transport (MRTT), ordering three in December (to be booked in 2008). These join the five aircrafts ordered by the Australian air force, the first of which made its maiden flight in June. Additionally, AirTanker consortium (in which EADS owns 40%) started to raise approximately £2 billion to build 14 A330 MRTTs for the U.K.'s Future Strategic Tanker Aircraft (FSTA) programme, and to operate them over 27 years.

In a buoyant worldwide helicopter market, Eurocopter deliveries and new orders reached record levels. Following a 76% rise from 279 to 492 helicopter deliveries over the past three years, management started to reorganise the industrial base to prepare for future volume increases. The NH90 medium-weight, multi-role military helicopter was of great importance. NH90 production was stepped up, but the large number of model variants has caused great complexity. The programme is being reorganised, with internal industrial measures and greater customer flexibility under discussion. At the same time, the army version of the NH90 was delivered to Australia, Sweden and Italy. The Finnish NH90 was ready for acceptance by the customer.

Reflecting their advanced capabilities and low lifecycle costs, Eurocopter helicopters captured more than 50% of the civil and parapublic market and continued to grow military orders. At the end of December the order backlog exceeded €13 billion.

Order intake increased by 35% in value, with good momentum in the oil and gas segment, parapublic orders and thanks to the NH90 and Tiger sales momentum. NH90 backlog stands at 495 firm orders and 102 options, the helicopters from Belgium and France haven't been booked yet.

Following several years of innovation and efficiency improvement, Astrium's strong competitive position is shown by its full order book and rising EBIT*. The Paradigm business's landmark Skynet 5 project made important progress, with the launch of two out of the three contracted secure telecommunications satellites. This will allow EADS to provide communications for the U.K. Ministry of Defence from 2008 with the new Skynet 5 network. Satellites also won a significant share of its market, becoming n°1 worldwide for Telecom and in Space Transportation, the Arianespace satellite launcher business captured the highest number of orders in the market. The Business Unit manufactured six of the powerful Ariane 5 ten-ton satellite launchers during the year, and Arianespace signed a preliminary order for Astrium to deliver 35 Ariane 5s from 2010. Galileo, the planned European satellite navigation system, was reorganised and is now back on track.

Defence & Security benefited from the Saudi Arabian order for 72 Eurofighter aircraft. MBDA confirmed its position as a world-leading missile systems company with more than €3 billion of sales. Important successes were achieved in security areas including secure communications, with more than 35 new Professional Mobile Radio (PMR) contract wins, and global security. The Division won significant contracts as a security Lead Systems Integrator. Qatar contracted EADS to build its National Security Shield System. Important steps were taken in areas of potentially high growth, such as Unmanned Aerial Vehicles (UAVs). The German Ministry of Defence awarded DS the research and technology programme for the Agile UAV in network-centric environments to analyse and refine enabling technologies and operating concepts. EADS was also tasked for the study on the risk reduction of a modular reconnaissance and surveillance UAV by Germany, France and Spain.

While 2007 was a difficult year for EADS with many high profile challenges to be overcome, the Group has shown strength and dedication in tackling these difficulties. The cash situation allows flexibility in the face of global economic challenges. However, the focus on efficiency and changes from Power8 remains a precondition for continued investment in EADS' future as the Group is taking definite steps to deliver against the ambitious goals of Vision 2020.

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

3. Change in the Shareholding and Stock Price Evolution

In 2007, 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 2007, EADS' issued share capital amounted to €814,014,473 divided into 814,014,473 shares of a nominal value of €1 each. The issued share capital of EADS as of such date represents 27.13% 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 2007, 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 the 2009 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 2007

During 2007, EADS repurchased 271,263 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, 4,568,405 treasury shares were cancelled on July 2007 in accordance with the decision of the shareholders' meeting dated 4th May 2007.

In addition, in 2007, EADS employees exercised 613,519 stock options granted to them through stock option plans launched

by the Company in the years 2000, 2001, 2002 and 2003. As a result 613,519 new shares were issued in the course of 2007.

Finally, 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"). The plan offered up to 2,040,000 shares to eligible employees of EADS. As a result, on 9th May 2007, 2,037,835 subscribed shares were issued.

Shareholding structure

As a result of the above, EADS' issued share capital was owned on 31st December 2007 as follows:

- 0.52% 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);
- 27.53% (i.e.: 27.67% of the voting rights)^{(1) (2)} by Société de Gestion de l'Aéronautique, de la Défense et de l'Espac ("Sogead"), a French partnership limited by shares and whose share capital is held 54.55% by the Société de Gestion de Participations Aéronautiques ("Sogepa") (a French State holding company) and 45.45% indirectly by Lagardère SCA;
- 22.52% (i.e.: 22.64% of the voting rights)⁽³⁾ indirectly by Daimler AG ("Daimler") via its indirect subsidiary Daimler Aerospace AG ("Dasa AG");

Thus, 50.05% (i.e.: 50.31% of the voting rights) of the Company's issued share capital is held by Daimler and Sogead, who jointly control EADS through a contractual partnership governed by Dutch law:

- 5.49% (i.e.: 5.52% of the voting rights) by Sociedad Estatal de Participaciones Industriales ("SEPI") (a Spanish State

(1) On 4th April 2006, Daimler 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 SCA 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 Sogead stake will be in line with Daimler AG's stake, at 22.5%.

(3) Independently from the 2006 movements, on 9th February 2007, Daimler AG 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 Daimler AG.

holding company), also party to the contractual partnership mentioned above;

- 43.88% (i.e.: 44.11% of the voting rights) by the public (including EADS employees 1.89% (i.e.: 1.90% 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 2007

In 2007, the EADS share price has travelled the same path as the U.S. dollar which lost over 10% against the Euro during the year, feeding market fears about the competitiveness of Airbus. The doubts about the planemaker's ability to restore its profitability, dented by provisions for the delayed A380, the launch of the A350 XWB and implementation of the Power8 restructuring.

By the end of the year, analysts' concerns heightened further as they focused on the possibility of a U.S. recession provoked by the "sub-prime" crisis. To cap it all, the October announcement of delays to the A400M programme, and the important financial consequences, also weighed heavily on the EADS share price which reflected market concerns about EADS' capacity to manage its programmes.

In the face of these concerns and of the year-end market flight to defensive stocks, the Group's commercial dynamism, evidenced by a flood of major orders had little impact. Record orders taken at the Paris Air Show, including 425 Airbus orders, and the Dubai Air Show historic \$20 billion order from Emirates, only managed to shore up the price temporarily. Likewise, EADS' major corporate governance changes, announced in July, consisting of a simplified management structure along with the appointment of four independent

directors, although very favourably received by stakeholders, did not relieve investors' doubts that EADS can create short-term value in a difficult economic environment. EADS' caution on communicating a longer term performance outlook left many institutional investors unwilling to commit to the stock.

Sovereign wealth fund interest

The three main shareholders, Sogade, Daimler and SEPI, account for over half of the share capital (55.5%). The most important news regarding share capital is the sovereign wealth fund interest. Notably, in July, Dubai International Capital announced that it had acquired a 3% stake. The proportion of U.S. institutional investors declined to approximately 21%. In contrast, European institutional investors lifted their holdings to 49% in free float. Free float represents 44.4% of the share capital.

Share price decline

In the course of 2007, the EADS share price fell 16% and ended the year with a closing price of €21.83 on 31st December 2007, underperforming the CAC 40 index which gained 1.3% in 2007.

3.3 DIVIDEND POLICY

The Board of Directors is proposing to the Annual General Meeting of shareholders a dividend of a gross amount of €0.12 per share (dividend per share 2006: €0.12).

The Group's sales successes, its financial strengths and its encouraging operational performance in legacy programmes,

are reflected in the dividend. The dividend proposal is a gesture of appreciation for shareholders' loyalty and an expression of confidence in the outlook for the years ahead, despite remaining challenges.

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 and amended in 2007 between Daimler, Dasa AG, Lagardère, Sogepa, Sogead and SEPI, a Dutch law Contractual Partnership agreement entered into between Sogead, Dasa AG, SEPI and EADS Participations B.V. and the Sogead 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, Sogead 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, Sogead, SEPI, Lagardère and Sogepa has the right to sell its EADS shares on the market, subject to pre-emption and tag-along rights.

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 in 2007

On 9th February 2007, Daimler 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 keeping and maintaining the balance of voting rights between Germany and French controlling shareholders.

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

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

Daimler has the option of dissolving the new structure on 1st July 2010 at the earliest. If the structure is dissolved, Daimler 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 Sogead, will be entitled to preempt such EADS shares to retain the balance between the German and the French side.

In June 2007, Lagardère redeemed bonds representing the first of three equal instalments of EADS shares (i.e. 2.5%). As a reminder, Lagardère issued in April 2006, 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.

On 16th July 2007, EADS core shareholders decided, together with the EADS management team, to implement a new management and leadership structure. The German Government was also consulted. These changes were submitted and approved at the extraordinary shareholders meeting ("EGM") of EADS on 22nd October 2007 and are fully described in the report of the Board to the EGM (available on EADS web-site (www.eads.com) in the section Investor Relations).

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 performance and/or restricted units 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; each unit giving right to payment in cash.

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, with discount price to the market (-20%) to all eligible 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).

3.5.2 2007 LTIP and Future LTIP

Whereas the Board anticipated the implementation in 2007 of a LTIP, which would have been made up of stock options and performance and restricted shares and submitted therefore this plan design to the Shareholders' meeting in May 2007, the Board has approved on 7th December 2007 the implementation of a new LTIP in cash: the "Unit Plan", whose general design and rules are similar to a "Share Plan", except that, at vesting, the payment is made in cash.

EADS has followed market trend, which is moving away from stock options towards more focus on new LTIP tools which are more directly related to the Company's own financial performance, mid-term development and are also based on Company shares ownership.

The 2006 LTIP had already introduced a Performance and Restricted Share plan, which had largely replaced stock option plans.

The earnings model, performance conditions and rules follow the 2006 Performance and Restricted share plan, but payment of the Unit Plan at vesting is made in cash and not in the Company's shares. At vesting dates, the eligible executives are entitled to a pay-out in cash based on the number of vested units times the value of the Company share on an average basis.

The Board approved the granting of 1,693,940 Performance Units and 506,060 Restricted Units to 1,617 EADS Executives and employees.

Performance units are rights to receive a payment in cash based on the value of the EADS share on the respective vesting dates. They are granted to Group executives based on their hierarchical level. Vesting of these units is conditional upon mid-term business performance over 3 years.

Restricted units are also rights to receive a payment in cash based on the value of the EADS share on the respective vesting dates. They are granted to selected individuals to reward personal performance and potential. Vesting of these units is subject to presence in the Group.

Should the performance criteria be met and/or provided that the executive is still employed by the Company, the vesting of the Performance and Restricted Units entitles the executive to four payments in cash over 2 years; each payment representing 25% of the vested units.

In addition, and in order to strengthen the alignment of EADS Top management with long-term growth objectives, the Board has approved mandatory share ownership rules together with the 2007 Unit plan. EADS Executive Committee Members will have to own EADS shares equal to a minimum of 20% of the number of vested units. They will have to hold this number of EADS shares until the end of their mandate as an EADS Executive Committee Member.

The proposed 2008 LTIP would be a Performance and Restricted Unit Plan, with the same general rules as the one described above for the 2007 Performance and Restricted Unit Plan.

The plan would offer the granting of up to about 2,400,000 Performance and Restricted Units given to specific beneficiaries. The value of each unit would be based on an average price of EADS share price at the respective dates of vesting.

The implementation of this plan would again have to be formally approved by the Board.

4. Corporate Governance

4.1 MANAGEMENT AND CONTROL

Pursuant to the Articles of Association, as amended by the EGM on 22nd October 2007, 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, in addition to the Chairman and the CEO two are nominated by Daimler, two by Sogead, four are independent Directors and one Director is nominated by SEPI.

The Board shall appoint one Chairman. 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 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 a CEO. The same rules apply for the CEO as for the Chairman.

The Board of Directors met twelve times during 2007 and was regularly informed of developments through business reports from the Chief Executive Officer(s), including rolling forecasts as well as strategic and operational plans. The average attendance rate at such meetings was 80%.

On 5th April 2007, Manfred Bischoff presented his resignation as Chairman and as member of the Board of Directors and the Board of Directors decided to designate Rüdiger Grube as his successor in the position of Chairman of the Board. On 9th May the Board nominated Marwan Lahoud as Chief Strategy and Marketing Officer (from 11th June 2007 on), and Carlos Suárez as Head of the Military Transport Aircraft (from 1st July 2007 on) and as members of the EADS Executive Committee. On 16th July 2007, the EADS core shareholders have decided, together with the EADS management team, to implement a new management and leadership structure. In consequence, a simplification of the dual-headed management structure has been proposed to an Extraordinary General Meeting of Shareholders held on the 22nd October 2007, which approved the changes and newly constituted the Board of Directors. Henceforth, EADS is led by a single Chairman (Rüdiger Grube) and a single CEO (Louis Gallois). The number of independent members on the Board of Directors has been increased to four and the CEO remains the only Executive Director. Furthermore, the Board's voting rules have been amended. In the context of this governance change, former co-CEO Thomas Enders is now assuming the position of Head of Airbus since 27th August 2007.

Other topics intensively discussed, and operations authorised at the Board of Directors meetings included: EADS' strategy (including M&A matters and the competitive environment), major business issues such as the A380 recovery efforts and the implementation of the Power8 programme, the A350 programme progresses and Airbus future product strategy, the regular updates on the A400M and the NH90 programmes, the approval of operational plans, reorganisation topics, budgets, the Group's financial results and forecasts, as well as the discussions regarding the implementation of a compliance organisation. 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 2007, with a 62% attendance rate, to review the 2006 results as well as the first half-year results for 2007 of the Company, together with the quarterly financial reviews. Since 22nd October 2007, the Audit Committee is chaired by Hermann-Josef Lamberti and also includes Dominique D'Hinnin, Sir John Parker and Bodo Uebber. The Remuneration and Nomination Committee met seven times during 2007, with an 81% 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 2006, the long-term incentive plan and the employee share ownership plan for 2007, as well as the salary review of the Executive Committee Members for 2007. Since 22nd October 2007, the Remuneration and Nomination Committee is chaired by Sir John Parker and also includes Rolf Bartke, Dominique D'Hinnin and Hermann-Josef Lamberti. The Strategic Committee established by the Board in October 2007 met for the first time in February 2008 to review amongst other matters the EADS Vision 2020. The Strategic Committee is chaired by Rüdiger Grube and also includes Louis Gallois, Arnaud Lagardère, Michel Pébureau and Bodo Uebber.

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

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

Due to the corporate governance modifications having taken place in 2007 and the reconstitution of the Board of Directors during the last quarter of the year 2007 (October), an end-year self-assessment of the Board's performance has not taken place,

as its findings would not have been very relevant due to the short period of operation of the newly constituted Board. The next self-assessment will be carried out for the year 2008.

Other

It is reminded that EADS has a conflict of interest policy which sets out that any conflict of interest or apparent conflicts of interest between EADS and members of the Board of Directors shall be avoided (please refer to the Directors' Charter available on EADS web-site (www.eads.com) in the section Corporate Governance).

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 must, in accordance with the Dutch Code's "apply or explain" principle, provide the following explanations:

1. EADS is a controlled Company and, therefore, a number of the Members of the Board, Audit Committee, Remuneration and Nomination Committee and Strategic Committee are designated and can be removed by its controlling shareholders

Nevertheless it should be noted that a self-assessment of the Board confirmed that the Members of the Board designated by the controlling shareholders hold opinions defend positions that are in all relevant aspects aligned with the economic interests of individual shareholders. Given the absence of material conflicting business interests between EADS and its controlling shareholders, and the independence of the controlling shareholders from one another, the Members of the Board designated by the controlling shareholders are deemed to fairly represent the interest of all shareholders in acting critically and independently of one another and of any particular interests. Furthermore, the Board's composition, as reshaped in October 2007 to increase in particular the number

of independent Board Members, with a wide range of different experiences represented in the Board and the running of meetings is conducive to the expression of autonomous and complementary views.

This explains why:

- (a) Four Members of the Board out of eleven are independent (whereas provision III.2.1 of the Dutch Code recommends that there be not more than one non-independent Board member);
- (b) Members of the Board retire simultaneously on a five-yearly basis (whereas provision III.3.6 of the Dutch Code recommends that there be a retirement schedule to avoid, as far as possible, a situation in which many Non-Executive Members of the Board retire at the same time);
- (c) The Board is headed by the Chairman of the Board. In case of dismissal or resignation of the Chairman, the Board shall immediately designate a new Chairman. There is therefore no need for a vice-Chairman to deal with the situation when vacancies occur (whereas provision III.4.1(f) of the Dutch Code recommends that there is a vice-Chairman);
- (d) EADS' Audit Committee includes two Members of the Board designated by the controlling shareholders (whereas provision III.5.1 of the Dutch code recommends that there be not more than one non-independent Audit Committee Member);
- (e) EADS' Remuneration and Nomination Committee includes two Members of the Board designated by the controlling shareholders (whereas provision III.5.1 of

the Dutch code recommends that there be not more than one non-independent Committee Member);

- (f) EADS' Remuneration and Nomination Committee is not the relevant body responsible for the selection procedure and nomination proposals for Members of the Board (whereas provision III.5.13 (a) of the Dutch Code recommends that such Committee shall focus on drawing up selection criteria and the appointment procedures for Members of the Board; and provision III.5.13 (d) recommends that such Committee shall focus on making proposals for appointments and reappointments);

2. As for remuneration of Members of the Board of Directors

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

In case of dismissal from the Company of the Chief Executive Officer, a termination package equal to one and a half time the annual total target salary would be paid. However this termination package would be reduced prorata or would even not be applicable depending on the age and date of retirement. EADS Board has decided to change the former policy for Termination package (cf. report of the Board of Directors 2006) and therefore to reduce the maximum termination indemnity from two times to one and a half time of annual total target salary (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).

3. EADS is listed on the Frankfurt, Paris and Spanish stock exchanges and endeavours to strictly comply with the relevant regulations and follow the general practices on these markets protecting all its stakeholders

- (a) Moreover EADS has adopted Insider Trading Rules providing for specific internal rules, inter alia, governing Members' of the Board holding and trading of shares in EADS and other companies. Therefore, in line with these rules and these regulations and common practices in the jurisdictions in which the Company is listed;

- (b) EADS does not require Members of the Board to give periodic notice of any changes in their holding of securities in Dutch listed companies to the EADS Compliance officer (whereas provisions II.2.6 and III.7.3 of the Dutch Code recommend such a notice unless a Board Member only invests in listed investments funds);
- (c) EADS does not require Members of the Board to treat their securities in the Company as a long-term investment (whereas provision III.7.2 of the Dutch Code recommends such a treatment);
- (d) The term of the office of members of the Board is five years without limitation on renewal (whereas provisions II.1.1 and III.3.5 of the Dutch Code recommend that there be no more than three four-year-terms for Non-Executive Members of the Board and that there be four year terms (without limitation on renewal) for Executive Members of the Board);
- (e) EADS does not follow various recommendations for dealings with analysts including allowing shareholders to follow meetings with analysts in real time and publishing presentations to analysts on the website as set out in provision IV.3.1 of the Dutch Code;
- (f) In accordance with EADS' Articles of Association, if the Board does not set a "registration date", the shareholders must be shareholders at the date of the meeting to exercise their voting rights and other rights at the meeting (whereas provision IV.1.7 of the Dutch Code recommends that the Company set a "registration date" prior to the shareholder's meeting and that the shareholders must be shareholders on the date of such "registration date" to exercise their voting rights at the shareholders' meetings even if those persons are not any longer shareholders on the date of such meeting).

4. 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 ensure an effective Internal Control ("IC") and Risk Management ("RM") environment at EADS, in accordance with corporate governance requirements and best practices in the Netherlands, France, Germany and Spain. Faced with continuing changes in the multi-jurisdictional legal and regulatory provisions applicable to it, EADS began to implement a coherent group-wide IC and RM system in 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").

Developments in 2007 and Outlook

During 2007, EADS sought primarily to increase awareness of IC and RM principles at the divisional, Business Unit (BU) and Headquarters (“HQ”) level. This included the rollout across several Divisions and BUs of standardised IC and RM training covering basic and refresher concepts. In addition, process coordinators benefited from individual coaching sessions and workshops relating to the performance of yearly IC procedures. Working groups were also established throughout 2007 in order to enhance cross-departmental and cross-organisational knowledge exchange.

During the second half of 2007, most Divisions, BUs and HQ departments conducted a self-assessment of their IC systems to evaluate the design and operational effectiveness of internal controls. The results are currently being analysed. Moreover, independent reviews of the IC & RM systems were performed to substantiate the self-assessment during 2007.

EADS is in the process of reviewing the IC and RM system in place at Airbus in order to further align it with that of the Group as a whole. Pending the completion of this review, Airbus has continued to operate the IC and RM system that was in place prior to BAE Systems’ divestment of its stake in 2006.

Building on the comprehensive IC and RM review and evaluation procedures carried out in 2007, EADS will assess the results over the course of 2008. As a result of the ongoing monitoring activities of the IC and RM systems’ effectiveness, further modifications to the IC and RM systems and integration efforts are expected throughout 2008.

Responsibility for the IC and RM System — Interaction with EADS Management

Overall responsibility for the IC and RM system and the related reporting to stakeholders lies with the EADS Board of Directors (“BoD”). EADS’ CEO and CFO are responsible for ensuring that the IC and RM system and related procedures are implemented throughout the Group. In addition, the Audit Committee oversees the Group-wide functioning of the IC and RM system.

A general management principle at EADS is the delegation of entrepreneurial responsibility and powers to the operational units. This principle of subsidiarity entails a clear allocation of responsibilities between EADS Headquarters and the Divisions or BUs. EADS Corporate sets the overall strategic and operational targets for EADS and assumes the ultimate responsibility for the process. The Divisions and BUs retain responsibility for all operational matters and activities within their scope, subject to audit. Consequently, the responsibility for operating and monitoring the IC and RM system and for risk and IC reporting lies with the respective management of

the Divisions, BUs and HQ departments. They must seek to ensure transparency and effectiveness of their local sub-IC and RM systems and the adherence to the objectives defined by the EADS BoD. The management of Divisions, BUs and HQ departments is responsible for the implementation of appropriate mitigation activities to reduce the probability and impact of risk exposures and for the communication of risks that affect others within EADS.

In principle, risk and IC management as well as ensuring overall effectiveness of the IC and RM system is the responsibility of all members of the staff. The Group seeks to integrate risk and IC management into all activities when conducting business transactions.

Monitoring of Internal Controls — Management Discussions

In addition to regular monitoring activities at the Divisional, BU and HQ levels, assessments about the adequacy and effectiveness of the IC and RM systems are discussed between the EADS CEO and CFO and the respective Division/BU CEOs and CFOs or the HQ-department heads. These discussions serve to prioritise potential issues at the EADS level, define and implement appropriate actions, if needed, and derive conclusions for the overall EADS IC and RM report.

Management Sign-Off Process — Sub-Representation

Once every year, identified significant deficiencies and material weaknesses are reported in sub-representation letters. Since the 2007 reporting cycle, an enhanced sign-off process requires EADS’ CEO and CFO confirm to the BoD, to the best of their knowledge, whether:

- The IC system is adequate to provide reasonable assurance regarding the reliability of financial reporting as well as compliance with applicable laws and regulations;
- The control objectives are being achieved by controls that are documented, adequately designed for their business and are operating effectively, in all material respects;
- The owner of each control activity is clearly identified; and
- The RM system is designed and operated to identify, assess, respond to, design controls and monitor/report on risks on a timely basis.

The EADS CEO and CFO’s IC and RM statement is mainly based on the self-assessments, audit reviews and management discussions described above, and is substantiated by sub-representation letters provided to the EADS CEO and CFO by all Divisional and BU management.

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 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.

The implementation and other aspects of the IC and RM System have been discussed with the Audit Committee, as part of the Audit Committee's general task to oversee the Group-wide functioning of the IC and RM System.

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.

As this framework (and relevant aspects referred to in the Dutch Code) is still being implemented throughout the Group, the Board will make a declaration on the adequacy and effectiveness of the Groups' internal control and risk management systems as soon as the implementation is complete (whereas provision II.1.4 of the Dutch Code recommends that such a declaration be included in the Board Report).

4.3 REMUNERATION POLICY OF THE MEMBERS OF THE BOARD OF DIRECTORS

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.

Following the Governance changes decided at the Extraordinary General Meeting dated 22nd October 2007, the Board is now made up of ten Non-Executive Members of the Board and one Executive Member of the Board: the Chief Executive Officer.

For a thorough report on the remuneration of the members of the Board during the year 2007 together with additional information such as volumes of Performance units, see "Notes to the Company Financial Statements – Note 11: Remuneration".

5. 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 new EADS compliance organisational structure that is currently being formalised.

Some consultations with the works councils have started regarding the implementation of such procedure. After decision of the Board and the Audit Committee on the organisational structure for compliance and the completion of the various proceedings with respective works councils 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 Member of the Board to the Chairman of the Board or to an official designated by them and that such arrangements for whistleblowers be posted on the Company's website.

4.3.1 Compensation of the Board

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

4.3.1.1 Compensation of Non-Executive Members of the Board

The Board has decided to review the compensation structure of the Non-Executive Members of the Board in order to reflect European best practice and compensate for time commitment and responsibilities in the new governance structure.

Therefore, the Board has resolved to remove the variable pay element and to provide separate fees for chairmanship and membership of Board Committees.

Effective 1st January 2008, each Non-Executive Member of the Board will receive an annual fixed fee of €80,000 and a fee for

participation in Board meetings of €5,000 per meeting attended.

The Chairman of the Board will receive an annual fixed fee of €180,000 for carrying out this role and a fee for participation in Board meetings of €10,000 per meeting attended.

The Chairmen of each of the Board Committees will receive an additional annual fixed fee of €30,000. The Members of each of the Board Committees will receive an additional annual fixed fee of €20,000 for each Committee membership.

Committee Chairmanship and Committee Membership annual fees are cumulative if the concerned Non-Executive Members of the Board belong to two different Committees.

4.3.1.2 Compensation of the Chief Executive Officer

The remuneration policy for the Chief Executive Officer follows the same principles as the remuneration policy for EADS Executive Committee Members. EADS' compensation policy aims at attracting and retaining talents that will contribute to the Group's business success.

The Chief Executive Officer is entitled to receive a total target compensation divided into a fixed part and a variable part: 45% fixed and 55% variable on target.

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

- Collective part (50% of the variable part) to reward business performance at EADS level. 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 in 2008);

- 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 as financial indicators ensures the alignment of the Chief Executive Officer 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 on bonus payments; the Board makes the final decision.

The Chief Executive Officer is also eligible to long-term incentive reward through the EADS long-term incentive plans (see below). He receives neither Board attendance fees nor any dedicated compensation as Member of the Board.

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

In summary, the Chief Executive Officer 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 Individual bonus (50% of Target variable pay): achievement of annual individual objectives	55% of Total target income (range from 0% to 175%)
Mid- and Long-term	Performance unit plan	Achievement of long-term operational profit, measured through cumulative EBIT* achievement	The number of Performance units which will vest is based on 2 nd and 3 rd year cumulative EBIT* achievement	Vested Performance units will range from 0% to 100% of initial grant

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

4.3.2 LTIP

The Chief Executive Officer is eligible for the EADS LTIP, which is a general tool for talent retention and promotion of Company value growth.

On 7th December 2007, the Board gave the delegation to the Remuneration and Nomination Committee to allocate 33,700 Performance Units to the Chief Executive Officer under the dissolving condition of formal approval by this shareholders' meeting as part of the new Remuneration policy for the Members of the Board.

If, as planned, a LTIP as described under 3.5.2 "Future LTIP" is implemented in 2008, the maximum volume of Performance Units to be granted to the Chief Executive Officer should be 40,000.

As for all other Unit plan participants, Performance units would vest after a period of 3 years.

In addition, the following additional rules would apply to the Chief Executive Officer:

- The Chief Executive Officer, as well as all Executive Committee members, will have to own EADS shares equal to a minimum of 20% of the number of vested units;
- They will have to hold this number of EADS shares until the end of their mandate as an EADS Executive Committee Member.

The Remuneration and Nomination Committee makes recommendations to the Board, which then makes the final decision on the individual grant allocation.

Non-executive Members and Chairman of the Board are not eligible for LTIP.

4.3.3 ESOP

The Chief Executive Officer is 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, the Chief Executive Officer would be entitled to subscribe, during the subscription period, up to a maximum of 500 shares 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.

Non-executive Members and Chairman of the Board are not eligible to participate in ESOP.

4.3.4 Pension benefits

The Members of the Executive Committee 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 upon reaching 5 years of service in the Executive Committee of EADS at the age of 60 to 65. In case of the Chief Executive Officer, the policy allows payment of the pension with effect from his retirement date, i.e. before 65.

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 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.

Non-executive Members and Chairman of the Board have no pension benefits.

4.3.5 Policy for termination package

Under the terms of his employment contract, the Chief Executive Officer has an indefinite term contract (whereas, in accordance with the Articles of Association of the Company, the length of the mandate is limited). The employment contract can be terminated at any time with six months notice.

As part of his employment contract, the Chief Executive Officer is entitled to a termination package when the parting results from a decision by the Company. The Board has decided to reduce the maximum termination indemnity from 24 months (cf. report of the Board of Directors 2006) to 18 months of annual total target salary.

This new rule is applicable to the Chief Executive Officer from the renewal of his employment contract in October 2007.

The indemnity could be reduced prorata or would even not be applicable depending on age and date of retirement.

Non-executive Members and Chairman of the Board are not allowed a termination package.

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 contract of the Chief Executive Officer. This clause is applicable for a one-year period, starting at the end of the employment contract, and is renewable for one year at the Company's initiative.

The Chief Executive Officer will receive a compensation based on his monthly salary (including variable pay) in return for the application of the non competition clause.

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").

New Standards, Amendments to existing Standards and new Interpretations

The IFRS rules applied by EADS for preparing 2007 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 7 Financial Instruments: Disclosures (issued 2005).

IFRS 7 and the complementary amendment to IAS 1 (see below under paragraph b) became effective 1st January 2007. Both Standards introduce additional qualitative as well as quantitative disclosure requirements regarding the nature and extent of risk arising from financial instruments. However, they do not have any impact on the classification or valuation of EADS' financial instruments.

b) Amended Standards

The application of the following amended Standard is mandatory for EADS as of 1st January 2007.

IAS 1 Presentation of Financial Statements: Capital Disclosure (issued 2005).

This amendment led to additional disclosures which shall enable users of EADS Group Financial Statements to evaluate the Group's objectives, policies and processes for managing capital.

c) New Interpretations

The following four Interpretations have become effective as of 1st January 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);

IFRIC 10 Interim Financial Reporting and Impairment (issued 2006).

IFRIC 7 addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred taxes.

IFRIC 8 requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2.

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

IFRIC 10 requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

The application of the four Interpretations did not have an impact on EADS Group Financial Statements.

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)	2007	2006
Revenues	39,123	39,434
Cost of sales	(34,802)	(34,722)
Gross margin	4,321	4,712
Selling expenses	(864)	(914)
Administrative expenses	(1,314)	(1,360)
Research and development expenses	(2,608)	(2,458)
Other income	233	297
Other expenses	(97)	(188)
Share of profit from associates under the equity method	210	152
Other income from investments	86	37
Profit (loss) before finance costs and income taxes	(33)	278
Total finance costs	(737)	(244)
Income taxes	333	81
Profit (loss) for the period	(437)	115
Attributable to:		
Equity holders of the parent (Net income)	(446)	99
Minority interests	9	16

5.1.2 Revenues

Revenues stood at €39.1 billion (FY 2006: €39.4 billion), supported by higher commercial aircraft deliveries at Airbus (453 units versus 434 compared to the previous year), as well as increased volumes at Eurocopter and Astrium. Despite an unfavourable U.S. dollar impact and a decrease in A400M revenue recognition Group revenues remained roughly stable in comparison with the previous year. EADS achieved 55% of its revenues outside Europe due to strong contributions from Asia-Pacific (23%), North America (20%) and other regions (12%).

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*.

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

TABLE 2 – RECONCILIATION PROFIT (LOSS) BEFORE FINANCE COSTS AND INCOME TAXES TO EBIT* (IFRS)

(in €m)	2007	2006
Profit (loss) before finance costs and income taxes	(33)	278
Disposal of goodwill / subsequent adjustment of goodwill	12	64
Exceptional depreciation / disposal (fixed assets)	73	57
EBIT* pre-goodwill impairment and exceptionals	52	399

EADS' EBIT* (pre goodwill and exceptionals) for 2007 stood at €52 million compared to €399 million in 2006. The EBIT* was strongly burdened by a Group-wide A400M charge (reflecting programme delays of 6 to 12 months) and by Power8 restructuring and A350 XWB launch charges. EBIT* suffered from a negative impact of the weak U.S. dollar. Maturing of less attractive hedges than in 2006 was more than balanced out by revaluations on liabilities. However, the U.S. dollar impact on provisions put additional pressure on the Group's EBIT*. Nevertheless, the underlying business performance of

EADS' legacy programmes continued to improve. Positive contributions came from the ramp-up in Airbus deliveries and the strong helicopter, defence and space businesses.

EADS recorded a **Net Loss** of €(446) million (Net Income FY 2006: €99 million), or a loss per share of €(0.56) (earnings per share FY 2006: €0.12). In the year under review, **self-financed R&D expenses** increased to €2,608 million (FY 2006: €2,458 million). This reflects Airbus' continuing aircraft development programmes, especially for the A350 XWB.

TABLE 3 – EBIT* AND REVENUES BY DIVISION

by Division (Amounts in €m)	EBIT*			Revenues		
	FY 2007	FY 2006	Change	FY 2007	FY 2006	Change
Airbus	(881)	(572)	(54)%	25,216	25,190	+0%
Military Transport Aircraft	(155)	75	(307)%	1,140	2,200	(48)%
Eurocopter	211	257	(18)%	4,172	3,803	+10%
Astrium	174	130	+34%	3,550	3,212	+11%
Defence & Security ⁽¹⁾	340	348	(2)%	5,465	5,864	(7)%
Headquarters / Consolidation	269⁽³⁾	449 ⁽³⁾	-	(1,689)	(2,092)	-
Other Businesses ⁽²⁾	94	(288)	+133%	1,269	1,257	+1%
Total	52	399	(87)%	39,123	39,434	(1)%

(1) MBDA consolidated at 37.5% in 2007, compared to 50% in 2006; figures of 2006 are not restated; to achieve a comparable basis, the following impacts of the consolidation change on 2006 figures have to be taken into account: €(30) million on FY 2006 EBIT* and €(418) million on FY 2006 revenues.

(2) ATR, EADS EFW, EADS Socata and EADS Sogerma Services are allocated to Other Businesses which is not a stand-alone EADS Division.

(3) Headquarters/Consolidation EBIT* contains the gain from the sale of EADS' stake in Embraer, the sale of buildings in Vélizy, the sale of the sites in Neuauving and Nabern and the contribution from Dassault. It further includes adjustments at Group level for the A400M situation (FY 2007: €(169) million; FY 2006: €286 million).

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

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

(in €m)	31 st December 2007	31 st December 2006	Change
Intangible Assets	10,832	10,855	(23)
Property, Plant and Equipment	13,489	14,315	(826)
Investments in associates under the equity method	2,238	2,095	143
Other investments and other long-term financial assets	1,553	1,666	(113)
Non-current other assets	3,543	4,231	(688)
Deferred tax assets	2,705	2,624	81
Non-current securities	2,691	1,294	1,397
Non-current assets	37,051	37,080	(29)
Inventories	18,906	16,892	2,014
Trade receivables	4,639	4,852	(213)
Other current assets	5,713	4,545	1,168
Current securities	1,598	549	1,049
Cash and cash equivalents	7,549	8,143	(594)
Current assets	38,405	34,981	3,424
Non-current assets / disposal groups classified as held for sale	0	76	(76)
Total assets	75,456	72,137	3,319
Equity attributable to equity holders of the parent	13,090	13,015	75
Minority interests	85	137	(52)
Total equity	13,175	13,152	23
Non-current provisions ⁽¹⁾	8,055	8,911	(856)
Long-term financing liabilities	3,090	3,561	(471)
Deferred tax liabilities	2,188	2,465	(277)
Other non-current liabilities ⁽¹⁾	14,880	12,832	2,048
Non-current liabilities	28,213	27,769	444
Current provisions ⁽²⁾	4,378	3,552	826
Short-term financing liabilities	1,724	2,196	(472)
Trade liabilities	7,398	7,461	(63)
Current tax liabilities	179	218	(39)
Other current liabilities ⁽²⁾	20,389	17,725	2,664
Current liabilities	34,068	31,152	2,916
Liabilities directly associated with non-current assets classified as held for sale	0	64	(64)
Total equity and liabilities	75,456	72,137	3,319

(1) Retrospective change in 2006 in presentation of "Non-current provisions" (€(152) million) and "Other non-current liabilities" (€+152 million) for financial instruments.

(2) Retrospective change in 2006 in presentation of "Current provisions" (€(79) million) and "Other current liabilities" (€+79 million) for financial instruments.

Non-current assets

Intangible assets of €10,832 million (prior year-end: €10,855 million) include €9,519 million (prior year-end: €9,565 million) of Goodwill. It mainly stems from Airbus (€6,374 million), Defence & Security (€2,431 million), Astrium (€574 million) and Eurocopter (€111 million). The related annual impairment tests, which were performed at the end of the year, did not lead to any impairment charges.

Eliminating foreign exchange-rate effects of €(392) million, **property, plant and equipment** decrease by €(434) million to €13,489 million (prior year-end: €14,315 million), including leased assets of €1,319 million (prior year-end: €1,992 million). Property, plant and equipment comprises “Investment property” amounting to €96 million (prior year-end: €137 million).

Investments in associates under the equity method of €2,238 million (prior year-end: €2,095 million) increase due to the change in the equity investment in Dassault Aviation, amounting to €2,121 million (prior year-end: €1,985 million).

Other investments and other long-term financial assets of €1,553 million (prior year-end: €1,666 million) are allocated to Airbus in the amount of €1,013 million (prior year-end: €1,012 million), mainly concerning the non-current portion of aircraft financing activities. Other investments decrease due to the sale of Embraer shares (€(123) million).

Non-current other assets mainly comprise “Non-current derivative financial instruments” and “Non-current prepaid expenses”. The decrease by €(688) million to €3,543 million (prior year-end: €4,231 million) is mainly caused by the variation of the non-current portion of fair values of derivative financial instruments (€(795) million).

Deferred tax assets of €2,705 million (prior year-end: €2,624 million) are presented as non-current assets as required by IAS 1.

Non-current securities increase by €+1,397 million to €2,691 million (prior year-end: €1,294 million) due to a higher level of purchases of medium-term securities.

The fair values of **derivative financial instruments** are included in non-current other assets with an amount of €2,440 million (prior year-end: €3,235 million), in current other assets (€2,955 million, prior year-end: €2,032 million), in other non-current liabilities (€258 million, prior year-end: €152 million) and in other current liabilities (€36 million, prior year-end: €79 million) which corresponds to a total net fair value of €5,101 million (prior year-end: €5,036 million). The volume of hedged U.S. dollar-contracts increases from \$45.1 billion as at 31st December 2006 to \$51.3 billion as at 31st December 2007. The U.S. dollar exchange rate became less

favourable (U.S.\$/€ spot rate of 1.47 at 31st December 2007 vs. 1.32 at 31st December 2006). The average U.S. dollar hedge rate for the hedge portfolio of the Group changed from 1.16 as at 31st December 2006 to 1.26 as at 31st December 2007 (U.S.\$/€ rate respectively).

Current assets

Inventories of €18,906 million (prior year-end: €16,892 million) increase by €+2,014 million in all divisions. This is mainly driven by Airbus (due to a higher level of unfinished goods and services (€+485 million) and advance payments made (€+416 million), an increase in Eurocopter (€+488 million) due to a ramp-up of commercialised programmes (Écureuil, SuperPuma and EC 145) and governmental programmes, a higher level of advance payments made at Defence & Security (€+181 million) and a higher work in progress at Astrium (€+135 million), boosted by the service and satellite business. At MTA, an amount of €(62) million of inventories was written off following a new obsolescence assessment on slow moving inventory.

Other current assets include “Current portion of other long-term financial assets”, “Current other assets”, “Current tax assets” and “Current prepaid expenses”. The increase of €+1,168 million to €5,713 million (prior year-end: €4,545 million) comprises among others an increase of €+923 million in positive fair values of derivative financial instruments.

Cash and cash equivalents decrease from €8,143 million to €7,549 million (see also Note 8 “Significant cash flow items”).

Total equity

Equity attributable to equity holders of the parent (including purchased treasury shares) amounts to €13,090 million (prior year-end: €13,015 million). The increase is mainly due to income and expense recognised in equity of €+78 million, primarily resulting from positive effects from changes in fair values of derivative financial instruments and changes in actuarial gains and losses (please refer to “non-current provisions”) partly compensated by the loss for the period. A cash distribution to shareholders leads to a reduction in equity.

Minority interests decrease to €85 million (prior year-end: €137 million). Due to the change in the proportional consolidation of MBDA from 50% to 37.5%, minority interests are no longer included (2006: €94 million less €26 million related to actuarial gains and losses included in total recognised income and expense).

Non-current liabilities

Non-current provisions of €8,055 million (prior year-end retrospectively changed: €8,911 million) comprise the non-

current portion of pension provisions with a decrease of €(1,220) million to €4,382 million (prior year-end: €5,602 million). Compared with year-end 2006, the assumed discount rate in Euro-countries for the calculation of pension provisions increases from 4.5% to 5.25% in France and 5.35% in Germany, thus leading to lower actuarial losses. Since EADS applies the equity approach for actuarial gains and losses, the effect is considered in non-current pension provisions with a corresponding net of tax increase in equity (please refer to "Equity"). The assumptions of BAe Systems' pension schemes are also reflected in a decrease of actuarial losses. In 2007, EADS implemented a Contractual Trust Arrangement (CTA). On 28th October 2007, some EADS companies contributed in total €310 million in cash and €190 million in securities as an initial funding of the CTA. The assets held under the CTA are treated as plan assets according to IAS 19.

Moreover, other provisions are included in non-current provisions, which increase by €+364 million to €3,673 million. A significant part of the increase is dedicated to the provision for the A350 XWB and the non-current portion of the restructuring provisions for the "Power8" programme. Other provisions include among others aircraft financing activities. A reclassification to "Other non-current liabilities" is made for those obligations for which an agreement is signed.

Long-term financing liabilities of €3,090 million (prior year-end: €3,561 million), excluding foreign exchange-rate effects of €(146) million, decrease by €(325) million in particular due to Airbus.

Other non-current liabilities comprise "Non-current other liabilities" and "Non-current deferred income" and increase in total by €+2,048 million to €14,880 million (prior year-end retrospectively changed: €12,832 million). They mainly include non-current customer advance payments received of €8,420 million (prior year-end: €6,308 million) and the non-current portion of European Government refundable advances amounting to €4,854 million (prior year-end: €5,029 million). The main part of non-current deferred income of €753 million (prior year-end: €1,110 million) is linked to deferred revenues of Airbus and ATR according to Residual Value Guarantee clauses. The remaining portfolio, which is included in non-current deferred income, is depreciated over the guaranteed period. Moreover, obligations from signed agreements for settlement or buy-out charges in connection with the A380 and A350 programmes have been reclassified from "Non-current other provisions".

Current liabilities

Current provisions increase by €+826 million to €4,378 million (prior year-end retrospectively changed: €3,552 million) and comprise the current portions of pensions (€286 million) and other provisions (€4,092 million). The build-up mainly reflects an increase in provisions for loss-

making contracts dedicated to the A400M programme (€+1,028 million) and an increase due to the current portion of restructuring provisions for the "Power8" programme (€+315 million). This is partly compensated by a decrease in miscellaneous other provisions (€(776) million), including a reclassification to "Other current liabilities" regarding signed agreements of settlement charges in connection with the A380 programme.

Short-term financing liabilities of €1,724 million (prior year-end: €2,196 million) decrease by €(472) million.

Trade liabilities decrease by €(63) million to €7,398 million (prior year-end: €7,461 million), mainly coming from Airbus (€(178) million) and Military Transport Aircraft (€(133) million), partly offset by Eurocopter (€+248 million).

Other current liabilities include "Current other liabilities" and "Current deferred income". They increase by €+2,664 million to €20,389 million (prior year-end retrospectively changed: €17,725 million). Other current liabilities mainly comprise current customer advance payments of €16,214 million (prior year-end: €14,172 million). Obligations from signed agreements in connection with the A380 programme have been reclassified from "Current provisions".

Non-current assets held for sale and discontinued operations – With regard to the plan to sell sites in Méaulte, St. Nazaire Ville, Nordenham, Varel, Augsburg, Laupheim and Filton, an indepth analysis has been performed to assess whether requirements of IFRS 5 for the classification of disposal group(s) held for sale were met as at 31st December 2007. Considering the status of the project as of 31st December 2007, the actions still necessary to complete the plan to sell all of the sites were considered of such a magnitude that it was not unlikely that significant changes to the plan to sell could be made.

5.1.5 Net Cash

Free Cash Flow before customer financing increased to €3,426 million (FY 2006: €869 million) due to an improved cash flow from operations and – thanks to stricter criteria on investment decisions – a reduced capital expenditure. The improvement in operating cash flow was mainly related to a stronger inflow of customer advance payments (incl. a Paradigm refinancing step-up of €1.1 billion) and only partly offset by the build-up of inventories. **Free Cash Flow including customer financing** improved to €3,487 million (FY 2006: €2,029 million) as the above described positive impacts were partly offset by a lower net contribution from sell-down of customer financing assets. In the course of 2007, the **Net Cash Position** grew to €7.0 billion (year-end 2006: €4.2 billion).

5.1.6 Order Intake and Order Book

EADS doubled its **order intake** in 2007 despite the weaker U.S. dollar and achieved a record of €136.8 billion (FY 2006: €69.0 billion). The main drivers were the vast upswing at Airbus (up 120%) and the remarkable growth at Defence & Security (up 45%) and Eurocopter (up 35%). In a favourable market environment the Group benefited from both robust demand and an attractive product offering across its entire portfolio.

TABLE 5 – ORDER INTAKE AND ORDER BOOK BY DIVISION

by Division (Amounts in €m)	Order Intake ⁽³⁾			Order Book ⁽³⁾		
	FY 2007	FY 2006	Change	31 st Dec. 2007	31 st Dec. 2006	Change
Airbus	117,323	53,367	+120%	283,829	210,115	+35%
Military Transport Aircraft	784	1,594	(51)%	19,932	20,337	(2)%
Eurocopter	6,584	4,885	+35%	13,455	11,042	+22%
Astrium	4,492	4,354	+3%	12,895	12,263	+5%
Defence & Security ⁽¹⁾	7,540	5,191	+45%	17,886	17,570	+2%
Headquarters / Consolidation	(1,653)	(1,842)	-	(10,909)	(10,809)	-
Other Businesses ⁽²⁾	1,729	1,469	+18%	2,444	2,292	+7%
Total	136,799	69,018	+98%	339,532	262,810	+29%

(1) MBDA consolidated at 37.5% in 2007, compared to 50% in 2006; figures of 2006 are not restated; to achieve a comparable basis, the following impacts of the consolidation change on 2006 figures have to be taken into account: €(329) million on FY 2006 Order Intake, €(1,691) on FY 2006 Order Book.

(2) ATR, EADS EFW, EADS Socata and EADS Sogerma Services are allocated to Other Businesses which is not a stand-alone EADS Division.

(3) 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's revenues remained stable at €25,216 million (FY 2006: €25,190 million) driven by a positive volume effect coming mainly from the ramped up single-aisle production. The growth was mitigated by a negative U.S. dollar impact of €(1,080) million and a lower A400M programme revenue recognition (€(323) million reflecting Airbus' internal work share). In the year under review, Airbus delivered 453 aircraft (FY 2006: 434 aircraft). EBIT* was dragged down to €(881) million (FY 2006: €(572) million), largely impacted over the year by provisions in the context of the revised A400M delivery schedule and Power8 restructuring as well as A350 XWB charges. A price deterioration in aircraft delivered compared to the previous year was more than offset by strong operating leverage and first Power8 savings.

First achievements in the Power8 restructuring programme demonstrate EADS' ongoing focus on competitive challenges to ensure long-term profitability. Implementation is on track at all levels concerned and milestones such as a new integrated and trans-national organisation or agreements with social partners regarding overhead reductions were met. Negotiations are ongoing for potential site divestments with preferred bidders (Latécoère in France, GKN in the U.K. and MT Aerospace in Germany) and no binding contract has been reached yet.

By year-end 2007, EADS' **order book** reached an all-time high of €339.5 billion (year-end 2006: €262.8 billion). It achieved this 29% growth despite performing a €(19.9) billion revaluation due to the weaker U.S. dollar at year-end. Orders within the commercial aircraft business are based on list prices. The Group further expanded its defence order book through new contracts for Eurocopter, Astrium and Defence & Security; it closed the year at €54.5 billion (year-end 2006: €52.9 billion).

The A380 proved exceptionally reliable in daily operations with Singapore Airlines since its entry into service in October. 2007 was a remarkable year for Airbus and commercial aviation as a whole. Global market demand – mainly driven by fast growing airlines in Asia and in the Middle East – reached an outstanding peak and led to record orders for Airbus. Airbus received 1,341 net orders (1,458 gross orders), mainly best-selling its A320 Family (913 aircraft), but also 405 aircraft in the long-range segment, especially the A330 which remains the most successful airliner in this size and range category. Regarding the A350 XWB, 12 customers placed firm orders for 290 aircraft over the course of 2007, pushing the A350 XWB order book to a total 292 aircraft by year-end. As for the A380, customers reaffirmed their confidence in the A380 with 33 new gross orders. Taking into account the first delivery in October 2007, by the end of December, Airbus had 188 firm orders in its A380 order book. Apart from the commercial momentum of the A380 and A350 XWB, the newly launched A330-200 Freighter started encouragingly in the market with 66 orders in 2007. As of 31st December the Airbus order book amounted to €283.8 billion (year-end 2006: €210.1 billion) based on list prices. In terms of units the order book further increased to a total of 3,421 aircraft (year-end 2006: 2,533 aircraft).

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

The **Military Transport Aircraft** Division's revenues declined to €1,140 million (FY 2006: €2,200 million), largely due to the postponement of the A400M Power-On milestone to 2008. In 2006 revenues, a milestone slippage from 2005 was included. The Division's EBIT* dropped to a loss of €(155) million (FY 2006: €75 million), mainly reflecting the adjustments of the A400M programme margin. It was further burdened by impairment charges, taken following a reassessment of slow moving inventory for mission aircraft.

With the recent selection of the KC-45A, derived from an A330 MRTT, as the new tanker aircraft for the U.S. Air Force, EADS achieved a major success both in the global tanker market and into the U.S. defence market, providing a solid basis for future growth. EADS will provide the U.S. forces with 179 tanker aircraft over the coming years. The outstanding capabilities of this tanker aircraft have already been proven before: In tough competitions, the United Arab Emirates and Saudi-Arabia decided to purchase the A330 MRTT as their new air-to-air refuelling aircraft. Following the order by Australia and the selection by the U.K., the A330 MRTT is confirmed as the most advanced and capable tanker aircraft in the market.

Flight tests of the aircraft are continuing; all aerodynamic tests have been successfully completed. The new air-to-air refuelling boom system (ARBS) performed its first in-flight contact with a fighter aircraft, and fuel was passed. The first A400M airframe is out of the jigs; components for the second aircraft have arrived at the Final Assembly Line. The engine has been mounted on a C-130 test bed for the upcoming test flights. In the medium-light turboprop range, defence forces from Poland to Columbia ordered a total of 11 new C-295s. The Spanish Interior Ministry bought two CN-235s to perform border patrol missions, and the U.S. Coast Guard ordered a further five CN-235s for its Deepwater programme. Brazil placed a repeat order for the upgrade of another P-3 aircraft. By year-end 2007, the order book of the Military Transport Aircraft Division totalled €19.9 billion (year-end 2006: €20.3 billion).

Eurocopter's revenues continued to grow reaching €4,172 million (FY 2006: €3,803 million). This mainly reflects the ongoing delivery ramp-up in serial helicopters and increased customer service activities. 488 helicopters were delivered to customers in the reporting period – 28% above the level of the previous year. The Division's EBIT* amounted to €211 million (FY 2006: €257 million) as it was weighed down by a margin correction and provision in the NH90 programme. However, Eurocopter significantly improved profitability, thanks to higher volume and a favourable product mix. The NH90 delivery ramp-up is progressing and new assembly lines came into action. In 2007, a total of eight NH90 helicopters were handed over to customers, among them the first two NH90s for the Australian forces. In the Light Utility

Helicopter programme, Eurocopter has so far delivered 18 UH-72As to the U.S. Army – ahead of schedule and on quality.

The Division further grew its international industrial presence and increased again its export share. This goes along with a clear focus on growing and emerging markets and strong efforts to constantly optimise the global service network. The strong market momentum led once again to a record order intake – up 35% in terms of value compared to 2006. Eurocopter received new orders for 802 helicopters (2006: 615), bringing the order book to a total of 1,388 helicopters (year-end 2006: 1,074) or a value of €13.5 billion (year-end 2006: €11.0 billion).

Astrium continued to grow its revenues to €3,550 million (FY 2006: €3,212 million). This was mainly driven by the ramp-up of Paradigm services, an increased Ariane 5 production rate and ballistic missile sales growth. EBIT* grew by 34% to €174 million (FY 2006: €130 million) due to a higher contribution from space transportation and service business.

During 2007, Astrium raised the production rate for the Ariane 5 ECA to six launches per year. Confirming the proven reliability of this launcher, Astrium received a preliminary order for 35 Ariane 5, to be delivered from 2010 onwards. Already in 2008, two major European space programmes linked with the International Space Station (ISS) crossed major milestones: the Columbus laboratory was put in service and the unmanned supply vehicle ATV took off into space. Over the year, the Division gained orders for eight telecommunication satellites – leading to a total order book of 18 satellites. For Europe's Mercury mission, Astrium is set to build the probe BepiColombo. The contract was recently signed with European Space Agency (ESA). By the end of 2007, the Division's order book stood at €12.9 billion (year-end 2006: €12.3 billion).

The revenues of the **Defence & Security** Division amounted to €5,465 million, compared to €5,864 million in 2006. On a like for like basis taking into account the changed MBDA consolidation from 50% in 2006 to 37.5% in 2007, revenues remained stable (comparable FY 2006 revenues: €5,446 million). The growth in Eurofighter and security revenues was offset by lower revenues in the missiles business. Like for like, the Division's EBIT* of €340 million exceeds last year's level (FY 2006: €348 million; comparable FY 2006 EBIT*: €318 million) after adjustments for one-time effects, thanks to improved operational performance and lower structural costs.

The Division's order intake benefited in 2007 from both defence and security activities, including EADS' part in the Eurofighter Typhoon Saudi-Arabia contract and Eurofighter enhancement contracts, EuroHawk, avionics and security

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

activities. The Division achieved new contracts for secure networks and successes in the global security business, such as FiReControl in the U.K. and the National Security Shield system for Qatar, in particular. Additionally, EADS Defence & Security moved ahead in the Unmanned Aerial Vehicle (UAV) business as it was selected for a risk reduction study driven jointly by the governments of France, Germany and Spain. The Division's order book grew by €2 billion to €17.9 billion at the end of December at a comparable basis taking into account the changed MBDA consolidation (year-end 2006: €17.6 billion; comparable year-end 2006: €15.9 billion).

Headquarters and Other Businesses (not belonging to any Division). Other Businesses (ATR, EADS EFW, EADS Socata and EADS Sogerma) achieved revenues of €1,269 million (2006: €1,257 million). This reflects mainly the strong revenues at ATR, EADS EFW and EADS Socata which more than compensated the disposal of EADS Sogerma's MRO business to TAT Group in 2006. EADS Sogerma's turn-around drove Other Businesses' EBIT* to €94 million in 2007 (FY 2006: €(288) million). All four entities achieved a positive EBIT*.

Headquarters/Consolidation EBIT* includes adjustments at Group level for the A400M situation (FY 2007: €(169) million; FY 2006: €286 million).

Regional aircraft manufacturer ATR continued to benefit from the upswing of the turboprop market and doubled its deliveries compared to the previous year (44 versus 22 aircraft) and envisages a further ramp-up in 2008. Throughout the year 2007, ATR sold 123 aircraft, leading to a total order book of 195 aircraft by the end of the year. EADS EFW delivered 18 converted freighters to its customers and ramped up its aerostructure output in line with Airbus' production volumes. The setup of A320 freighter conversion centres in Russia and Germany is underway. EADS Socata delivered 47 aircraft in 2007. In the same period, 71 new orders for the very fast single engine turboprop aircraft TBM 850 were registered – 25% above last year's order intake. The order book for the TBM 850 stood at 65 aircraft. On 31st December 2007, the order book of Other Businesses stood at €2.4 billion (year-end 2006: €2.3 billion).

5.2 EADS N.V. COMPANY FINANCIAL STATEMENTS

TABLE 6 – BALANCE SHEET EADS N.V.

(in €m)	31 st December 2007	31 st December 2006
Goodwill	4,354	4,354
Financial fixed assets	11,303	12,298
Fixed assets	15,657	16,652
Receivables and other assets	5,526	4,387
Securities	4,280	1,660
Cash and cash equivalents	6,444	6,862
Non-fixed assets	16,250	12,909
Total assets	31,907	29,561
Stockholders' equity⁽¹⁾	13,090	13,015
Financing liabilities	316	320
Non-current other liabilities	1,532	1,518
Non-current liabilities	1,848	1,838
Current other liabilities	16,969	14,708
Current liabilities	16,969	14,708
Total liabilities and stockholders' equity	31,907	29,561

(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)	2007	2006
Income from investments	(380)	95
Other results	(66)	4
Net result	(446)	99

5.3 RISK FACTORS

EADS is subject to many risks and uncertainties that may affect its financial performance. The business, financial condition or results of operations of EADS could be materially adversely affected by the risks described below. These risks are not the only ones facing EADS. Additional risks not presently known to EADS or that it currently deems immaterial may also impair its business operations. For further information on these risks, you should refer to EADS' "Registration Document" available on its website (www.eads.net).

5.3.1 Financial Market Risks

Exposure to Foreign Currencies

A significant portion of EADS' revenues is denominated in U.S. dollar, while a substantial portion of its costs is incurred in Euro, and to a lesser extent, in Pounds Sterling. Consequently, to the extent that EADS does not use financial instruments to cover its exposure resulting from this foreign currency mismatch, its profits will be affected by market changes in the exchange rate of the U.S. dollar against these currencies. No assurances may be given that EADS' exchange rate hedging strategy will protect it fully from significant changes in the exchange rate of the U.S. dollar to the Euro and the Pound Sterling and that such changes will not affect its results of operation and financial condition.

Exposure to Sales Financing Risk

In support of sales, EADS (primarily through Airbus and ATR with respect to commercial aircraft) may agree to participate in the financing of customers, guarantee the residual value of aircraft or undertake to repurchase aircraft conditionally. As a result, EADS has a significant portfolio of leases and other financing arrangements with airlines. No assurances may be given that measures taken by EADS to protect itself from defaults by its customers or significant decreases in the value of the financed aircraft in the resale market will be effective.

Counterparty Credit Risk

EADS is exposed to credit risk to the extent of non-performance by its counterparties for financial instruments, such as hedging instruments and cash investments.

Exposure on Equity Investment Portfolio

EADS holds several equity investments for industrial or strategic reasons, the business rationale for which may vary over the life of the investment. EADS believes that its exposure to the risk of unexpected material adverse changes in the fair value of Dassault Aviation (other than business jet market cyclicality) and that of other associated companies is limited.

Financial Instruments

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.

5.3.2 Business-Related Risks

Aircraft Market Cyclicity

Historically, the market for commercial passenger aircraft has shown cyclical trends, due in part to changes in passenger demand for air travel, which is itself primarily driven by economic or gross domestic product ("GDP") growth. EADS expects that the market for commercial passenger aircraft will continue to be cyclical, and that future downturns in broad economic trends may have a negative effect on its future results of operation and financial condition.

Impact of Terrorism, Epidemics and Catastrophic Events On Aircraft Market

As the terrorist attacks in New York and Madrid and the spread of the Severe Acute Respiratory Syndrome ("SARS")

virus and avian flu have demonstrated, terrorism and epidemics may negatively affect public perception of air travel safety and comfort, which may in turn reduce demand for air travel and commercial aircraft. In response to such events, and the resulting negative impact on the airline industry or particular airlines, EADS may suffer from a decline in demand for all or certain types of its aircraft, and EADS' customers may postpone delivery of new aircraft or cancel orders.

Dependence on Public Spending and on Certain Markets

In any single market, public spending (including defence spending) depends on a complex mix of geopolitical considerations and budgetary constraints. Adverse economic and political conditions as well as downturns in broad economic trends in EADS' markets may reduce the amount of public spending and have a negative effect on EADS' future results of operations and financial condition. Further, a significant portion of EADS (including Airbus) backlog is concentrated in certain regions or countries, including the United States of America, China, India and the United Arab Emirates. Adverse economic and political conditions as well as downturns in broad economic trends in these countries or regions may have a negative effect on EADS' and Airbus future results of operations and financial condition.

Emergence of Public-Private Partnerships and Private Finance Initiatives

Defence customers, particularly in the U.K., increasingly request proposals and grant contracts under schemes known as public-private partnerships ("PPPs") or private finance initiatives ("PFIs"). There can be no assurances of the extent to which EADS will efficiently and effectively (i) compete for future PFI or PPP programmes, (ii) administer the services contemplated under the contracts, (iii) finance the acquisition of the equipment and the ongoing provision of services related thereto, or (iv) access the markets for the commercialisation of excess capacity.

Competition and Market Access

Most of EADS' businesses are subject to significant competition, and Airbus in particular has been affected by downward price pressure resulting from such competition. No assurance can be given that competition may not intensify, particularly in the context of a prolonged economic downturn in the future.

Availability of Government Financing

Since 1992, the E.U. and the U.S. have operated under an agreement that sets the terms and conditions of financial support that governments may provide to civil aircraft manufacturers. In late 2004, however, the U.S. sought to

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

In prior years, EADS and its principal competitors have each received different types of government financing of product research and development. However, no assurances can be given that government financing will continue to be made available in the future for these and other projects, in part as a result of the proceedings mentioned above.

Technologically Advanced Products and Services

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

Certain of EADS' contracts require it to forfeit part of its expected profit, to receive reduced payments, to provide a replacement launch or other product or service, or to reduce the price of subsequent sales to the same customer if its products fail to be delivered on time or to perform adequately. No assurances can be given that performance penalties or contract cancellations will not be imposed should EADS fail to meet delivery schedules or other measures of contract performance.

For example, following the production difficulties that EADS encountered in 2006 in connection with its A380 programme, certain customers decided to cancel their A380 freighter orders. In 2007, EADS announced delivery delays on its A400M programme. In both years, EBIT* at EADS was negatively affected as a result, in part due to the contractual penalties to be paid to customers due to delivery delays. There can be no assurances that problems similar to the ones encountered in connection with development of the A380 and the A400M will not occur in the future.

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

Major Research and Development Programmes

The business environment in many of EADS' principal operating business segments is characterised by extensive research and development costs requiring significant up-front investments. There can be no assurances that the commercial, technical and market assumptions underlying such business plans will be met, and consequently, the payback period or returns contemplated therein achieved.

"Power8" Restructuring Programme

EADS has announced the implementation of a significant cost reduction and restructuring programme at Airbus, referred to as "Power8". Anticipated cost savings are based on preliminary estimates, however, and actual savings may vary significantly. EADS' failure to successfully implement these planned cost reduction measures, or the possibility that these efforts may not generate the level of cost savings it expects going forward, could negatively affect its future results of operation and financial condition. In addition to the risk of not achieving the anticipated level of cost savings from Power8, EADS may also incur higher than expected implementation costs, depending on the outcome of its current negotiations with labour and other representatives.

Industrial Ramp-up

As a result of the large number of new orders for aircraft recorded in recent years, EADS has accelerated its production rate in order to meet the agreed upon delivery schedules for such new aircraft, in particular at Airbus and Eurocopter. The failure to accelerate could lead to missed delivery commitments, and depending on the length of delay in meeting delivery commitments, could lead to additional costs and customers' rescheduling or terminating their orders.

Programme-Specific Risks

In addition to the risk factors mentioned above, EADS also faces the following programme-specific risks in the future (while this list does not purport to be comprehensive, it highlights the current risks believed to be material by management): (i) A380 programme, (ii) A350 XWB programme, (iii) A400M programme, and (iv) NH90 programme.

Pension Commitments

EADS participates in several pension plans for both executive as well as non-executive employees, some of which are underfunded. Although EADS has recorded a provision in its balance sheet for its share of the underfunding based on current estimates, there can be no assurance that these estimates will not be revised upward in the future, leading EADS to record additional provisions in respect of such plans.

5.3.3 Legal Risks

Dependence on Joint Ventures and Minority Holdings

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

Product Liability and Warranty Claims

EADS designs, develops and produces a number of high profile products of large individual value, particularly civil and military aircraft and space equipment. EADS is subject to the risk of product liability and warranty claims in the event that any of its products fails to perform as designed.

Intellectual Property

EADS relies upon patent, copyright, trademark and trade secret laws, and agreements with its employees, customers, suppliers and other parties, to establish and maintain its intellectual property rights in technology and products used in its operations. Despite these efforts to protect its intellectual property rights, any of EADS' direct or indirect intellectual property rights could be challenged, invalidated or circumvented.

In addition, although EADS believes that it lawfully complies with the intellectual property rights granted to others, it could have claims asserted against it for infringement of the intellectual property rights of third parties. Any claims or litigation in this area, whether EADS ultimately wins or loses, could be time-consuming and costly, injure EADS' reputation or require it to enter into licensing arrangements.

Export Controls and Other Regulations

The export market is a significant market for EADS. There can be no assurance (i) that the export controls to which EADS is subject will not become more restrictive, (ii) that new generations of EADS products will not also be subject to similar or more stringent controls or (iii) that geopolitical factors will not make it impossible to obtain export licenses for one or more clients or constrain EADS' ability to perform under previously signed contracts.

Litigation and Claims

Please refer to “Notes to Consolidated Financial Statements (IFRS) – Note 28: Litigation and claims” of the Consolidated Financial Statements of EADS for information on litigation and claims related to the Group.

5.3.4 Industrial and Environmental Risks

Given the scope of its activities and the industries in which it operates, EADS is subject to stringent environmental, health and safety laws and regulations in numerous jurisdictions

around the world. EADS therefore incurs, and expects to continue to incur, significant capital expenditure and other operating costs to comply with increasingly complex laws and regulations. In addition, the various products manufactured and sold by EADS must comply with relevant environmental, health and safety laws and regulations in the jurisdictions in which they operate. In the event of an accident or other serious incident, EADS may be required to conduct investigations and undertake remedial activities. Employees, customers and other third parties may also file claims for personal injury, property damage or damage to the environment (including natural resources).

5.4 HUMAN RESOURCES

5.4.1 Workforce Information

As of 31st December 2007, the EADS workforce was composed of 116,493 employees. It has globally increased by 1,199 employees compared to 2006⁽⁴⁾. The number of employees compared to 2006 decreased at Airbus, Corporate Headquarters and units belonging to Other Businesses.

In 2007, 97% of the workforce was full time employees. Depending on country and hierarchy level, the average working time is between 35 and 40 hours a week.

In 2007, 6,860 employees worldwide entered employment with EADS (8,283 in 2006). At the same time, 4,648 employees left EADS (6,261 in 2006).

In total, 96.2% of EADS' active workforce is located in Europe on more than 80 sites.

Headcount is expected to overall slightly increase over the coming years. Impacts of acquisitions or disposals of businesses/sites can only be taken into account as they occur.

5.4.2 Organisation of Human Resources Management

The key mission of the Group HR function is to ensure that EADS, as an integrated Group, attracts, develops, motivates and retains a world-class workforce. It acts as a business partner through supporting the business challenges by facilitating continuous integration and internationalisation of the Group as well as the building of a common spirit across the Group's organisational and operational structures.

Since 2006, the HR organisation has been further integrated, in line with the Group business requirements. The role of HR Board and functional reporting lines from the Divisions to the Group HR head were re-enforced to foster a coordinated Group HR policy. HR function has implemented global shared services for HR administration and payroll using common global HR information system. HR processes have been harmonised through common e-HR project. Implementation of global shared services for learning administration have started.

Corporate HR team operates as strategic leader in HR matters and works in close cooperation with the Divisions and BUs HR functions which have the operational responsibility for managing the employees. Regular meetings of the HR managers and specialists from different businesses are organised on both group and national levels.

At corporate level, five support departments make up the global HR team: HR Improvement and Operations; Social Policy and Industrial Relations; Compensation and Benefits, Leadership Development and Learning; Talent and Executive Management. Among other, they are responsible for e.g.:

- Managing common HR policies for the 1,200 Executives of EADS;
- HR management and, Career Development for the top 200 key job holders;
- Organising and delivering executive education for all executives and potential future executives through the CBA and coordinating the training and learning activities within the Group for all employees; and
- Designing policies, guidelines and tools for all group wide HR processes, such as appointments, job rotation, international mobility, compensation and benefits, etc.;

(4) The reported EADS workforce as of 31st December 2006 was of 116,805. Since 2007, MBDA workforce is consolidated at 37.5% instead of 50% previously, therefore the 2006 restated figure for the purpose of this variation's analysis is of 115,297.

together with divisions and fostering best practise sharing within the EADS HR community.

In the context of the Airbus restructuring and the evolution of EADS organisation, the social dialogue has been intensified and

additional information and consultation procedure has been defined with the staff representatives. A set of policies and social agreements have been defined addressing key challenges such as, Health and Safety, equal opportunity, training and development.

5.5 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 global policy embraces all phases of a product life cycle, design, manufacturing, in service operations and product support up to end of life issues.

In terms of processes, EADS entities must ensure compliance with the applicable environmental laws and regulations of the countries in which they operate, EADS being subject to numerous E.U., national, regional and local environmental laws and regulations concerning e.g. emissions into the environment, discharges to surface and sub-surface water and the disposal and treatment of waste materials.

The Group encourages its subsidiaries and sites to go beyond the sole fulfilment of these legal obligations. Therefore, throughout the EADS Group, internal management practices have been developed and environmental management systems have been certified against the ISO 14001 standard or have been EMAS registered and EADS continuously increases the coverage of such certifications. This implies that each concerned organisation has adopted policies, identified relevant significant environmental impacts and defined associated improvement objectives. Best practices are also being implemented e.g. relating to reducing energy consumption, waste, air pollutants and other environmental aspects. Furthermore, improving environmental performance of products throughout their lifecycle is key to meet growing expectations of EADS' stakeholders and particularly those of customers. EADS is hence fully committed to progressively and efficiently consider environmental issues in all phases of products' life cycles, from design, to operation, manufacturing, and dismantling.

Airbus has already implemented such life cycle approach allowing to systematically integrate environment in all activities of the Company, acting when it makes sense and seems to be the most efficient way to control the environmental impact within the life cycle. Airbus is the first aerospace company to have implemented such a wide environmental management system which has received in 2007 an ISO 14001 certification covering both sites and product-related aspects all along their life cycle.

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. However, EADS is aiming at becoming an eco-efficient company in order to sustain the Company growth while at the same time, minimising the environmental impacts of its processes and products, from design to end of life. In order to promote and implement such a strategy, EADS seeks to define common guidelines throughout the entire Group, to develop continuous improvement objectives and strengthen the reporting of consolidated performance. Airbus has defined concrete commitments up to 2020, some based on the ACARE goals (which includes reduction of CO₂ emissions by 50%, NO_x emissions by 80% and noise by 50%) and already largely dedicates its Research & Technology (R&T) efforts in environmental protection including fuel and energy savings. Additional long-term objectives have also been defined for the various industrial processes and other related activities.

An EADS environmental network which includes both business units' representative and corporate functions is coordinating the development of a roadmap towards eco-efficiency while getting prepared to face the European regulation on the Registration, Evaluation and Authorisation of CHEMicals (REACH). EADS and its subsidiaries must ensure that they have fully integrated these obligations resulting from this new regulation, through appropriate tracking of substances, requesting administrative authorisations for continuing using some substances of very high concern, as well as appropriately informing the supply chain, customers and employees.

Coordination works in this respect have been undertaken in order to develop Group-wide tools to ensure compliance in a most efficient and consistent way. EADS currently participates to the definition of international and standardised processes in joint coordination with the Aerospace Industries Association, AIA, and the AeroSpace and Defence Industries Association of Europe, ASD, which will have to be implemented throughout the Group (e.g. process to request and obtain reliable information from the supply chain). In the meantime EADS strives to research alternative environmentally friendly options for materials and other technologies in order to face possible obsolescence and anticipate supply chain disruption.

5.6 RESEARCH AND TECHNOLOGY MANAGEMENT

In the current changing world, new products based on emerging technologies and efficient processes are required. EADS' products and processes must be tightly linked to improve the Group's competitiveness and differentiation. Hence, Research & Technology (R&T) plays a central role in helping EADS to remain competitive by striving to deliver higher value innovation to product faster than its competitors.

In addition, EADS and its Divisions promote cutting-edge technologies and scientific excellence to contribute to global progress and to deliver solutions for the challenges of societal issues such as environmental protection, mobility, defence and security, safety.

The Corporate Technical Office (CTO) organisation ensures that business strategy and technology strategy are closely linked. The CTO delivers shareholder value through a stringent, leading-edge R&T portfolio that enables flawless introduction of new technologies on future products with strong returns-on-investment. CTO also maximises customer excitement by providing high-value solutions which meet the technological, performance, safety, and cost-competitive pressures that challenge the Company's future. The EADS R&T strategy is also driven by the need for successful on-time, on-quality, on-price introduction of new products and processes as well as for technology leadership to fuel business growth.

The scope of R&T within EADS covers a wide spectrum of technological domains. R&T activities are targeted at the varying levels in the value chain and the R&T strategy is structured according to the timelines of short term/committed programmes, medium term/optional programmes and long term/advanced concepts for the introduction of new technologies into the Company's products and processes.

First, the R&T activities for advanced concepts include Integrated Demonstrators and Technological/Operational Studies. Today, all EADS Divisions are working to generate new product concepts in line with the Company's vision and to maximise its future business potential. These concepts explore and generate completely new ideas, while pushing the limits of what is technically possible at the time. The portfolio is currently focused around four growth axes: mobility (e.g. air traffic management), environmental protection (e.g. new energy solutions, new optimised platforms), defence, safety and security (asymmetric warfare, communications and localisation in buildings under ground, illicit materials detection and aircraft communications protection) and Services (e.g. in-service

health monitoring, mid-life upgrades, MRO ...). EADS also dedicates resources to assess emerging concepts, which are being worked on by its competitors.

Second, R&T aims at developing Key Product Technologies, which means, for example constantly scouting for new materials and equipment, and experimenting with and testing them on prototypes before they are being deployed at a large scale. In doing so, the Company develops privileged relationships and partnerships with key suppliers. EADS R&T activities in these areas are aimed at identifying the emerging technologies that will drive performance, at adapting and further developing these technologies and at validating them. EADS has identified the emerging technologies which will drive future performance for five key product technology categories: Optimised Platform Structures; Sensors, Electronics, Signal Processing & Systems Integration; Power Technologies; Flight Physics; and Information Technologies.

Third, the R&T "architect's toolbox" encompasses the developing and mastering of the state-of-the-art tools, which enable EADS to be an efficient industrial architect. It covers virtual product engineering as well as safe and mature on-board software development.

EADS is also developing a plan to leverage and further develop its participation in venture capital funds in order to reinforce its capacity, both throughout the technical disciplines and geographically, to identify and source emerging technologies. It is of key importance for EADS to detect disruptive technologies that enhance the Company's products. Through EADS Innovation Works and partnerships with external laboratories, EADS monitors and evaluates closely different technologies such as fuel cells, secure communications, photonics, nanotechnologies and hybrid materials.

Finally, in keeping with its ambition to grow its business in the products-related services, EADS develops technologies for services such as training, advanced product support, full communication services as well as special mission capability: e.g. provision, maintenance and operation on behalf of a customer including qualified staff to conduct the mission.

Capex is expected to grow in 2008 due to the expected ramp up of EADS businesses. Mid-term, following EADS growth strategy, capex is expected to remain above 2007 level.

6. Financial Targets for 2008

The EADS guidance and outlook are based on an exchange rate of €1 = \$1.45.

Based on continued economic growth and comforted by a solid order book, despite the volatility of markets, the Group believes in the continuation of a resilient commercial aircraft market and Airbus deliveries peaking in 2011-2012.

EADS expects Airbus to capture about 700 aircraft orders in 2008.

EADS revenues are expected to exceed €40 billion in 2008, with about 470 aircraft deliveries for the full year.

EADS expects its 2008 EBIT* at €1.8 billion, reflecting higher comfort in its improving ability to drive profitability, yet

recognising evolving economic and cost challenges. This figure contains allowances for planning contingencies. However, it does not take into account the possible influence of short-term currency movements on revaluations of existing provisions, nor does it take into account an impact from the potential sale of industrial sites.

While they are not without risk, EADS does not presently expect a further material deterioration of its critical development programmes.

Before the impact of customer financing, EADS presently expects 2008 Free Cash Flow at €0.5 billion (keeping in mind it is the most volatile item to predict).

7. EADS Strategic Challenges

The following strategic challenges of EADS have been published in the Group's "Vision 2020" which outlines EADS' long-term objectives and has been discussed throughout various management levels, as well as the Board of Directors.

All such objectives must be understood to be long-term management ambitions, the achievement of which is subject to risks as outlined in section 5.2 "Risks and uncertainties".

7.1 GROUP STRATEGIC CHALLENGES

EADS has one of the broadest platform portfolios with leading worldwide positions and ranks second in its sector at world level. With its Vision 2020, EADS strives to become the **worldwide leader in air and space platforms and systems** (mainly platform-related systems architecture and integration) with a complete portfolio of products, both commercial and governmental. Globally, this implies that EADS targets around €80 billion turnover by 2020 and to reach a balance in Airbus/ other Divisions' revenues. Organic growth is not enough to reach such a balance; therefore external growth through acquisitions or partnerships is required, especially in Asia and the USA.

EADS has defined its option for a strategic vision, where **priority is given to platforms and systems** (mainly platform-related systems architecture and integration) **and services**. This option provides a new growth engine fuelled by

the expansion of the in-service fleet and an increasing transfer of responsibilities and outsourcing from defence/governmental bodies and armed forces to the private sector as well as the increasing demand from airlines for aviation services. Therefore, EADS targets a **25% services share of business by 2020**, focusing on high-value services initially related to platforms, requiring and developing both customer intimacy and product intimacy. EADS will **increasingly focus on core**, which means going towards this new business model approach and reallocate resources which are currently locked in non-core legacy activities.

EADS will also drive necessary improvements to achieve a best-in-class operational and financial efficiency to **reach 10% EBIT*** in the first half of the decade 2010-2020. The improvements have to come through internal costs control, optimal resource allocation, better programme and risk

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

management, ability to cope with the strong € as well as stronger development of more profitable segments.

Demand for outsourced services is rising in the market, either driven by cost/revenue constraints or driven by operational efficiency requirements. Training, Advanced In-Service Support and air traffic management systems are segments with a positive outlook in the coming years. Also in Defence procurement, demand patterns evolve and there is an increasing trend towards outsourcing and services. The operating environment changes in the defence sector with an increase in coalition-led engagements, mutualisation of funds to compensate for declining/flat budgets.

Also, EADS will continue to **develop/secure core competencies/technologies for platforms and systems** (mainly platform-related systems architecture and integration). The intelligence of complex platform-related systems (such as surveillance or air defence systems) will be increasingly distributed on board (cockpit) and on the ground (control stations). Therefore, the core competencies required to secure prime contractorship in the future will certainly include the ground segment, the data link, C4I and network centric operations (as currently the case for UAVs, satellites and air defence missile systems). EADS also has to take benefit from the convergence between defence and security, especially on secured networks.

EADS will continue to pursue its **industrial globalisation**, EADS must continue to reduce vulnerability to € versus U.S.\$ exchange rate with a new business model based on core/non-core analysis and the development of a network of partnerships as well as true globalisation in developing countries such as China, India and Russia, as well as in the U.S. dollar zone.

A significant part of EADS sourcing volumes and employees are in Europe (although a majority of the revenues comes from outside Europe). Access to markets and technology resources, cost optimisation and protection against U.S. dollar volatility mean that EADS needs to **reinforce the industrial footprint and partnership-building outside Europe**. Should the U.S. dollar continue to be weaker than U.S.\$1.35 – 1.40 against the Euro, EADS will have to take additional structural measures in terms of sourcing and footprint to reduce further the U.S. dollar exposure.

In this context, EADS will aim for an ambitious target of **40% of EADS sourcing** and **20% of EADS employees outside Europe**. To enhance EADS U.S. industrial base, the long term goal will also be **to achieve \$10 billion revenues in North America** in non-Airbus businesses and gain a prime position with U.S. Government. With an improved political environment and a favourable Euro/U.S. dollar rate, there are many available targets which are good in terms of technology

and market access, but opportunities are diminishing due to rapid industry consolidation.

European defence budgets are unlikely to grow significantly in the next 10 years; this may drive a further consolidation/restructuring of the defence industry. Consequently, EADS must remain vigilant to **European defence consolidation**. For several years, scale has been becoming more important in the A&D industry and companies have sought opportunities to build and infill their portfolios. Yet, the end-game has not been achieved and the major players are preparing for the next steps. In this context, EADS must constantly monitor the development of potential opportunities, including strategic acquisitions since the Company do not afford to be marginalised.

EADS is consistently moving towards **becoming an eco-efficient company** and is acting to sustain future development. With a clear objective to reconcile environmental protection and economic sustainability, EADS intends to meet increasing demand for aeronautic/space/defense products while minimising environmental impacts in the most economical and efficient way.

As an example, at Airbus, concrete commitments up to 2020 have been agreed and communicated. Clear policy, measurable objectives including the complete EADS portfolio need to be considered in the frame of consistent Environmental Management Systems (ISO 14001) to be set up.

The world in which EADS operates will evolve dramatically in the coming 20 years. This will require new products based on emerging technologies and efficient processes. Technology and innovation are key drivers to achieve Vision 2020. Products and processes will be tightly linked to improve competitiveness and differentiation. At the same time, EADS will keep the innovation pipeline constantly full in order to replace ageing technologies and processes.

In 1999, EADS was not created as a financial holding but with the ambition to become an integrated industrial group with worldwide leadership in A&D. EADS's organisation and Human Resources should be the key means of achieving this goal.

At all levels, a leaner, more integrated, fully transparent and more efficient structure is needed to strengthen the coherence of actions and exploitation of synergies, taking advantage of integration. This should, however, not distort the operational capabilities of the Divisions, as financial objectives have to be met and industrial programmes executed at this level.

Finally, EADS needs motivated and competent employees. To this end, it is the duty of EADS and its management to provide them with the opportunities to meet their professional

expectations develop their professional skills and realise their personal potential. This requires an active management development based on a new leadership model. EADS will also encourage stronger mobility and greater internal diversity in

the teams. These two criteria will be taken into account for career management and performance assessment. Recruitment of managers from nations outside our home countries will also be encouraged.

7.2 DIVISIONS OUTLOOK

7.2.1 Airbus

In 2008, orders are expected to exceed deliveries once more, although the credit crunch makes the level of airline demand less certain. Airbus will deliver more aircraft than it did in 2007, in line with the planned ramp-up.

Development work for the A350 XWB will continue, with the focus on reaching the detailed definition freeze by the year end.

Airbus will continue and expand its Power8 restructuring in order to remain competitive in the face of a weak U.S. dollar and to ensure the long-term future of the Company.

7.2.2 Military Transport Aircraft

For the A400M, management is working closely with all internal and external partners to ensure the first flight in summer 2008. Apart from industrialising the programme, the Division is developing a comprehensive end-to-end services offering, which will be available in time for the aircraft's entry into service. The service strategy is intended to create value for customers, and will widen the programme's business case. In direct competition with EADS, several large European and international aerospace groups are vying for this business.

With the recent selection of the KC-45A, derived from an A330 MRTT, as the new tanker aircraft for the U.S. Air Force, EADS achieved a major success both in the global tanker market and into the U.S. defence market, providing a solid basis for future growth.

Closing of the U.K. FSTA (Future Strategic Tanker Aircraft) deal is now finally expected before end of March 2008, provided there is no further turmoil in the global financial markets. In the FSTA programme, 14 MRTTs based on A330 platforms will provide refuelling to the Royal Air Force under a full service contract over a period of 27 years.

The Division has started a business transformation programme, called Horizon 2011. Over the next three years, management will elaborate and implement plans for reducing costs, growing new products and services, fostering cultural change, and improving internal processes and controls. At the same time,

Horizon 2011 is the platform for driving actions in line with EADS Vision 2020.

7.2.3 Eurocopter

At the end of 2007, Eurocopter has a strong order book securing three years' activity, and its modern product range is highly competitive. Management sees the military market as an area of growth and intends to build on the NH90, LUH and Tiger attack helicopter successes.

Strategically, it will continue to expand internationally, on occasion through acquisition, and will develop its industrial presence in key growth markets. Eurocopter will invest to maintain product leadership through technology programmes, and innovation that enhances safety, operational scope, mission effectiveness and economic performance.

Measures to further optimise industrial processes over the medium term will be implemented. In particular, management is focusing on the challenging NH90 delivery.

While cautioning that the economic environment remains volatile, we expect the positive trend in revenues to continue in 2008, being reflected as well in EBIT* evolution.

7.2.4 Defence & Security ("DS")

The Division has a positive outlook due to its large forward order book, strong position in platforms, capabilities in high growth areas and ongoing efficiency initiatives.

There are a number of Eurofighter export campaigns currently underway across Europe, the Middle East and Asia. Business areas such as secure networks, global security and UAVs are gathering momentum. Operational improvements are reducing risks while opportunities for further cost reductions are being sought.

Over time, all of these factors should continue the trend of rising revenues, margins and EBIT*. The Division is central to EADS' goal of achieving a better balance between commercial aerospace and defence and security revenues.

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

7.2.5 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

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

Presentation of the Resolutions Proposed by the Board of Directors

FIRST RESOLUTION

Adoption of the Report of the Board of Directors

We propose that this AGM adopts the 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.

SECOND RESOLUTION

Adoption of the audited accounts for the financial year 2007

We propose that this AGM approves the audited accounts for 2007.

THIRD RESOLUTION

Approval of the result allocation, distribution and payment date

We propose that this AGM resolves that the net loss of €446 million, as shown in the income statement for the financial year 2007, shall be deducted from retained earnings and that a payment of a gross amount of € 0.12 per share shall be made to the shareholders from distributable reserves on 4th June 2008.

As from Friday 30th May 2008 EADS' shares shall be traded ex-dividend on the Frankfurt, Paris and Spanish Stock Exchanges. The payment shall be made on 4th June 2008 to holders of EADS' shares at the date of 3rd June 2008.

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 2007.

FIFTH RESOLUTION

Appointment of the auditors for the financial year 2008

We recommend that the Company's auditors for the financial year 2008 should be Ernst & Young Accountants whose registered office is at Antonio Vivaldistraat 150, 1083 HP Amsterdam, The Netherlands, and KPMG Accountants N.V. whose registered office is at Fascinatio Boulevard 200, 3065 WB 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.

SIXTH 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 1,291,381 shares, to compensate the dilution effect resulting from the issuance of shares for the purpose of the ESOP 2007 and the exercise of stock options from the SOPs 2000, 2001, 2002 and 2003 in 2007.

SEVENTH 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 2007. 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 website 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)

EADS N.V. Consolidated Income Statements (IFRS) for the years ended 31st December 2007, 2006 and 2005

(in €m)	Note	2007	2006	2005
Revenues	5,6	39,123	39,434	34,206
Cost of sales	7	(34,802)	(34,722)	(27,530)
Gross margin		4,321	4,712	6,676
Selling expenses		(864)	(914)	(832)
Administrative expenses		(1,314)	(1,360)	(1,351)
Research and development expenses		(2,608)	(2,458)	(2,075)
Other income	8	233	297	222
Other expenses		(97)	(188)	(153)
Share of profit from associates accounted for under the equity method	9	210	152	210
Other income from investments	9	86	37	15
Profit (loss) before finance costs and income taxes	5	(33)	278	2,712
Interest income		502	454	423
Interest expenses		(701)	(575)	(578)
Other financial result		(538)	(123)	(22)
Total finance costs	10	(737)	(244)	(177)
Income taxes	11	333	81	(825)
Profit (loss) for the period		(437)	115	1,710
Attributable to:				
Equity holders of the parent (Net income (loss))		(446)	99	1,676
Minority interests		9	16	34
Earnings per share		€	€	€
Basic	35	(0.56)	0.12	2.11
Diluted	35	(0.55)	0.12	2.09

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

EADS N.V. Consolidated Balance Sheets (IFRS) at 31st December 2007 and 2006

(in €m)			
Assets	Note	2007	2006
Non-current assets			
Intangible assets	12	10,832	10,855
Property, plant and equipment	13	13,393	14,178
Investment property	33	96	137
Investments in associates accounted for under the equity method	14	2,238	2,095
Other investments and other long-term financial assets	14	1,553	1,666
Non-current other assets	17	3,543	4,231
Deferred tax assets	11	2,705	2,624
Non-current securities	18	2,691	1,294
		37,051	37,080
Current assets			
Inventories	15	18,906	16,892
Trade receivables	16	4,639	4,852
Current portion of other long-term financial assets	14	166	103
Current other assets	17	5,172	4,014
Current tax assets		375	428
Current securities	18	1,598	549
Cash and cash equivalents	27	7,549	8,143
		38,405	34,981
Non-current assets/disposal groups classified as held for sale	19	0	76
Total assets		75,456	72,137
Equity and liabilities			
Equity attributable to equity holders of the parent			
Capital stock		814	816
Reserves		7,406	7,593
Accumulated other comprehensive income		5,076	4,955
Treasury shares		(206)	(349)
		13,090	13,015
Minority interests		85	137
Total equity	20	13,175	13,152
Non-current liabilities			
Non-current provisions	22	8,055	8,911 ⁽¹⁾
Long-term financing liabilities	23	3,090	3,561
Non-current other liabilities	24	14,127	11,722 ⁽¹⁾
Deferred tax liabilities	11	2,188	2,465
Non-current deferred income	26	753	1,110
		28,213	27,769
Current liabilities			
Current provisions	22	4,378	3,552 ⁽²⁾
Short-term financing liabilities	23	1,724	2,196
Trade liabilities	25	7,398	7,461
Current other liabilities	24	19,683	17,239 ⁽²⁾
Current tax liabilities		179	218
Current deferred income	26	706	486
		34,068	31,152
Liabilities directly associated with non-current assets classified as held for sale	19	0	64
Total liabilities		62,281	58,985
Total equity and liabilities		75,456	72,137

(1) Regarding the retrospective change in presentation of "Non-current provisions" (€(152) million) and "Non-current other liabilities" (+€(152) million) for financial instruments please refer to "Changes in Accounting Policies" in Note 2 "Summary of significant accounting policies".

(2) Regarding the retrospective change in presentation of "Current provisions" (€(79) million) and "Current other liabilities" (+€(79) million) for financial instruments please refer to "Changes in Accounting Policies" in Note 2 "Summary of significant accounting policies".

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

EADS N.V. Consolidated Statements of Cash Flows (IFRS) for the years ended 31st December 2007, 2006 and 2005

(in €m)	Note	2007	2006	2005
Profit (loss) for the period attributable to equity holders of the parent (Net income (loss))		(446)	99	1,676
Profit for the period attributable to minority interests		9	16	34
<i>Adjustments to reconcile net income (loss) to cash provided by operating activities:</i>				
Interest income		(502)	(454)	(423)
Interest expense		701	575	578
Interest received		480	380	313
Interest paid		(370)	(271)	(242)
Income taxes		(333)	(81)	825
Income taxes received (paid)		36	(239)	(265)
Depreciation and amortisation		1,772	1,691	1,653
Valuation adjustments		582	163	(76)
Results on disposal of non-current assets		(125)	(336)	(170)
Results of companies accounted for by the equity method		(210)	(152)	(210)
Change in current and non-current provisions		2,268	2,150	175
Change in other operating assets and liabilities:		1,175	(143)	1,239
– Inventories		(2,998)	(1,942)	(3,264)
– Trade receivables		(148)	(7)	(388)
– Trade liabilities		44	686	666
– Advance payments received		4,817	1,564	4,237
– Other assets and liabilities		(540)	(444)	(12)
Cash provided by operating activities		5,037	3,398	5,107
Investments:				
– Purchase of intangible assets, Property, plant and equipment		(2,028)	(2,708)	(2,818)
– Proceeds from disposals of intangible assets, Property, plant and equipment		162	76	101
– Acquisitions of subsidiaries and joint ventures (net of cash)	27	0	(82)	(131)
– Proceeds from disposals of subsidiaries (net of cash)	27	29	86	89
– Payments for investments in associates, other investments and other long-term financial assets		(568)	(421)	(659)
– Proceeds from disposals of associates, other investments and other long-term financial assets		481	813	485
– Dividends paid by companies valued at equity		39	46	36
– Increase in equipment of leased assets		(30)	(147)	(40)
– Proceeds from disposals of leased assets		371	215	256
– Increase in finance lease receivables		(150)	(16)	(219)
– Decrease in finance lease receivables		118	79	85
Disposals of non-current assets / disposal groups classified as held for sale and liabilities directly associated with non-current assets classified as held for sale		26	690	0
Change of securities		(2,641)	3,357	1,008
Reimbursement from / contribution to plan assets		(303)	0	0
Change in cash from changes in consolidation		(249) ⁽¹⁾	0	12
Cash (used for) provided by investing activities		(4,743)	1,988	(1,795)
Increase in financing liabilities		236	1,252	456
Repayment of financing liabilities		(955)	(468)	(800)
Cash distribution to EADS N.V. shareholders		(97)	(520)	(396)
Dividends paid to minorities		(1)	(16)	0
Payments related to liability for puttable instruments		0	(2,879) ⁽²⁾	(93)
Capital increase		46	94	187
Purchase of treasury shares		0	(35)	(288)
Cash used for financing activities		(771)	(2,572)	(934)
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents		(117)	(57)	17
Net (decrease) increase in cash and cash equivalents		(594)	2,757	2,395
Cash and cash equivalents at beginning of period		8,143	5,386	2,991
Cash and cash equivalents at end of period	27	7,549	8,143	5,386

(1) The total amount is related to the change in the percentage of the proportional consolidation of MBDA from 50% in 2006/2005 to 37.5%; please refer to Note 3 "Scope of Consolidation".

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

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

EADS N.V. Consolidated Statements of Recognised Income and Expense (IFRS) for the years ended 31st December 2007, 2006 and 2005⁽¹⁾

(in €m)	2007	2006	2005
Currency translation adjustments for foreign operations	(196)	(324)	(58)
Effective portion of changes in fair value of cash flow hedges	2,124	3,326	(3,849)
Net change in fair value of cash flow hedges transferred to profit or loss	(1,884)	(1,463)	(1,875)
Effective portion of changes in fair value of available-for-sale financial assets	4	76	52
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(54)	0	0
Actuarial gains (losses) on defined benefit plans	608	(690)	(459)
Tax on income and expense recognised directly in equity	(46)	(662)	2,203
Income and expense recognised directly in equity	556	263	(3,986)
Profit (loss) for the period	(437)	115	1,710
Total recognised income and expense of the period	119	378	(2,276)
Attributable to:			
Equity holders of the parent	78	382	(2,295)
Minority interests	41	(4)	19
Total recognised income and expense of the period	119	378	(2,276)

(1) For other information regarding changes in Equity, please refer to Note 20 "Total Equity".

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

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Basis of Presentation

1. The Company

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

satellites, defence systems and defence electronics and rendering of services related to these activities. EADS has its listings at the European Stock Exchanges in Paris, Frankfurt and Madrid. The Consolidated Financial Statements were authorised for issue by EADS’ Board of Directors on 10th March 2008, 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”) and with Part 9 of Book 2 of the Netherlands Civil Code. 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, uncapped Structured Notes and foreign currency Funds of Hedge 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.

In accordance with Article 402 book 2 of the Netherlands Civil Code the Statement of Income of the **EADS N.V. Company Financial Statements** is presented in abbreviated form.

New Standards, Amendments to existing Standards and new Interpretations

The IFRS rules applied by EADS for preparing 2007 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 7 Financial Instruments: Disclosures (issued 2005)

IFRS 7 and the complementary amendment to IAS 1 (see below under paragraph b) became effective 1st January 2007. Both Standards introduce additional qualitative as well as quantitative disclosure requirements regarding the nature and extent of risk arising from financial instruments. However, they do not have any impact on the classification or valuation of EADS’ financial instruments.

b) Amended Standards

The application of the following amended Standard is mandatory for EADS as of 1st January 2007.

IAS 1 Presentation of Financial Statements: Capital Disclosure (issued 2005)

This amendment led to additional disclosures which shall enable users of EADS Group Financial Statements to evaluate the Group’s objectives, policies and processes for managing capital.

c) New Interpretations

The following four Interpretations have become effective as of 1st January 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)

IFRIC 10 Interim Financial Reporting and Impairment (issued 2006)

IFRIC 7 addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred taxes.

IFRIC 8 requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2.

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

IFRIC 10 requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

The application of the four Interpretations did not have an impact on EADS Group Financial Statements.

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

IFRS 2 “Share-based Payments – Vesting Conditions and Cancellations” was amended in January 2008 and will become effective for EADS on 1st January 2009. The Standard restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The adoption of revised IFRS 2 will not have a material impact on EADS’ Financial Statements.

IFRS 3R “Business Combinations” and **IAS 27R** “Consolidated and Separate Financial Statements” (not yet endorsed) were revised and issued in January 2008 and will become effective beginning on or after 1st July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary

is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRS 8 “Operating Segments” (issued 2006) will replace IAS 14 “Segment Reporting” for accounting periods beginning on or after 1st January 2009.

IFRS 8 requires the presentation of information regarding operating segments and follows a pure management approach. The application of IFRS 8 is not expected to have an impact on the presentation or the definition of EADS segments as they have been determined based on a management approach. However, additional disclosure requirements might have to be included in EADS Consolidated Financial Statements.

EADS has decided not to opt for early adoption of this Standard.

Amendment to IAS 23 “Borrowing Costs” removes the option of recognising borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as an expense and therefore requires capitalising such borrowing costs as part of the cost of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The not yet endorsed amendment has been released in March 2007 and becomes mandatory to EADS as of 1st January 2009. The application of amended IAS 23 will result in the mandatory capitalisation of borrowing cost related to qualifying assets and will thus increase the amount of total cost capitalised for qualifying assets.

Amendment to IAS 1 “Presentation of Financial Statements: A revised presentation” has been issued in September 2007 and becomes mandatory to EADS as of 1st January 2009. The revised Standard aims to improve user’s ability to analyse and compare the information given in financial statements and therefore requires information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. It has not yet been endorsed by the EU. The adoption of revised IAS 1 will have an impact on the presentation of EADS’ Financial Statements.

Amendment to IAS 32 and IAS 1 “Puttable Financial Instruments” were issued in February 2008 and will become effective for EADS as of 1st January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity

if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The adoption of revised IAS 32 and IAS 1 will not have a material impact on EADS' Financial Statements.

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" (issued 2006), **IFRIC 12** "Service Concession Arrangements" (issued 2006, not yet endorsed) and **IFRIC 14** "IAS 19 – The Limit of a Defined Benefit Asset Minimum Funding Requirements and their Interaction" (issued 2007, not yet endorsed) will become mandatory for EADS for annual periods beginning on 1st January 2008. New IFRIC 11 and IFRIC 14 are not expected to have an impact on EADS' Financial Statements. The application of IFRIC 12 is expected to have no material impact on EADS' Consolidated Financial Statements.

IFRIC 13 "Customer Loyalty Programmes" (issued 2007, not yet endorsed) will become mandatory for EADS as at 1st January 2009. As EADS does not grant any customer loyalty award credits the application of the Interpretation will not have an impact on EADS Group Financial Statements.

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.

Business combinations are accounted for under the purchase method of accounting; 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 purpose, 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.

EADS subsidiaries prepare their financial statements at the same reporting date as EADS Group Financial Statements and apply the same accounting policies for similar transactions.

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. The investments in associates include goodwill as recognised at the acquisition date net of any accumulated impairment loss. 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 investments' carrying amount is adjusted by the cumulative movements in recognised income and expense. When EADS' share in losses equals or exceeds its interest in an associate, including any other unsecured receivables, no further losses are recognised, unless the Group has incurred obligations or made payments on behalf of the associate.

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 from minority shareholders or other venturers respectively are recorded in goodwill, whereas disposals to minority shareholders or other venturers are recorded within the income statement.

The financial statements of EADS' investments in associates and joint ventures are prepared for the same reporting date as for the parent company. Adjustments are made where necessary to bring the accounting policies into line with those of the Group.

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 except when deferred in equity as qualifying cash flow hedges. Changes in the fair value of securities denominated in a foreign currency that are classified as available-for-sale financial assets are to be analysed whether they are due to i) changes in the amortised cost of the security or due to ii) other changes in the security. Translation differences related to changes in i) amortised cost are recognised in the Consolidated Income Statement whilst ii) other changes are recognised in AOCI.

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. Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences of non-monetary financial assets such as equity securities classified as available for sale are included in AOCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity occurring after 31st December 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.

The accumulated amount of translation differences recognised in AOCI is released to profit or loss when the associated foreign currency entity is disposed of or liquidated or the associated asset or liability is disposed of respectively.

Current and non-current assets and liabilities — The classification of an asset or liability as a current or non-current asset or liability in general depends on whether the item is related to serial production or subject to long term production. In case of serial production, an asset or liability is classified as a non-current asset or liability when the item is realised or settled respectively after twelve months after the balance sheet date, and as current asset or liability when the item is realised or settled respectively within twelve months after the balance sheet date. In case of construction contracts, an asset or liability is classified as non-current when the item is realised or settled respectively beyond EADS' normal operating cycle; and as a current asset or liability when the item is realised or settled in EADS' normal operating cycle. However, current assets include assets - such as inventories, trade receivables and receivables from POC - that are sold, consumed and realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the balance sheet. Trade payables are equally part of the normal operating cycle and are therefore classified as current liabilities.

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 technical 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 other long-term financial assets (see Note 14 “Investments in associates accounted for under the equity method, other investments and other 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 finance lease with EADS being the lessor (headlease-sublease-transactions) and is recorded accordingly. For the relating liability from finance leases see Note 23 “Financing liabilities”. When EADS is the lessee under an operating lease contract, rental payments are

recognised on a straight line basis over the leased term (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. In case the number of units produced cannot be estimated reliably capitalised development cost are amortised over the estimated useful life of the internally generated intangible asset. 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, less accumulated impairment if necessary. The amortisation method and the estimate of the useful lives of the separately acquired intangible asset is reviewed at least annually and changed if appropriate.

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 10 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, depreciation methods and residual values applying to property, plant and equipment are reviewed at least annually 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. All other repairs and maintenance are recognised as an expense in the income statement of the period in which they are incurred. 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 programmes 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 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, first the related goodwill is impaired. Any exceeding amount of impairment is recognised on a pro rata basis of the carrying amount of each asset in the respective CGU.

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.

Financial Instruments — A financial instrument is any contract that gives rise to a financial asset of one entity and

a financial liability or equity instrument of another entity. EADS' financial assets comprise cash and cash equivalents, trade and loan receivables, finance lease receivables, available-for-sale financial assets and derivatives with a positive fair value. The Group's financial liabilities mainly include obligations towards financial institutions, bonds, loans, refundable advances, trade liabilities, finance lease liabilities as well as derivatives with a negative fair value. EADS recognises a financial instrument on its balance sheet when it becomes party to the contractual provision of the instrument. All purchases and sales of financial assets are recognised on settlement date according to market conventions. The settlement date is the date an asset is delivered to or by an entity. Financial instruments are initially recognised at fair value plus, in the case the financial instruments are not measured at fair value through profit or loss, directly attributable transaction costs. Financial instruments at fair value through profit or loss are initially recognised at fair value, transaction costs are recognised in the Consolidated Income Statement. Finance lease receivables are recognised at an amount equal to the net investment in the lease. Subsequent measurement of financial instruments depends on their classification into the relevant category. 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. EADS derecognises a financial asset only when the contractual rights to the asset's cash flows expire or the financial asset has been transferred and the transfer qualifies for derecognition under IAS 39. EADS derecognises a financial liability only when the obligation specified in the contract is discharged, cancelled or expired.

Investments and other financial assets — EADS' investments comprise investments in associates accounted for under the equity method, other investments and other 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.

Within EADS, all investments in entities for which consolidation criteria are not fulfilled are classified as non-current available-for-sale financial assets. They are included in the line **other investments and other 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.

Available for sale financial assets — Financial assets classified as available-for-sale are accounted for at fair value. Changes in the fair value subsequent to the recognition of

available-for-sale financial assets - other than impairment losses and foreign exchange gains and losses on monetary items classified as available-for-sale - 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.

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.

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.

Financial assets designated at fair value through profit or loss — 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, uncapped Structured Notes are designated “at fair value through profit or loss” in accordance with criterion (i), foreign currency funds of hedge funds structure also comprising foreign currency derivatives are designated “at fair value through profit or loss” in accordance with criterion (ii) and investments in accumulating Money Market Funds are designated at “fair value through profit or loss” in accordance with above criterion (iii).

Loans and receivables — 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 other long-term financial assets**. After initial recognition loans and receivables are measured at amortised cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognised in the income statement at disposal of the loans and receivables, through the amortisation process as well as in case of any impairment.

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 and disposal groups — 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. Whilst classified as held for sale or part of a disposal group, EADS does not depreciate or amortise a non-current asset. 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. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale is continued to be recognised.

To be classified as held for sale the non-current assets (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal group) and its sale must be highly probable. For a sale to be highly probable – among other criteria that have to be fulfilled – the appropriate level of EADS management must be committed to the plan to sell, an active programme to complete the plan must have been initiated and actions required to complete the plan to sell the assets (or disposal group) should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

If a component of EADS has either been disposed of or is classified as held for sale and i) represents a separate major line of business or geographical area of operations, ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or iii) is a subsidiary acquired exclusively with a view to resale the component is a discontinued operation.

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 "Other liabilities". Trading derivatives are classified as a current asset or liability.

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 Consolidated 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". Apart from derivative financial instruments, the Group also uses financial liabilities denominated in a foreign currency to hedge foreign currency risk inherent in forecast transactions.
- 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".

The fair values of various derivative financial instruments used as hedging instruments are disclosed in Note 30 "Information about financial instruments". Periodical movements in the AOCI, the separate component of total equity in which the effective portion of cash flow hedges are recognised, are disclosed in Note 30.

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.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Share Capital — Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown directly in equity - as a deduction - net of any tax effects. Own equity instruments which are reacquired are deducted from total equity and remain recognised as treasury shares until they are either cancelled or reissued. Any gains or losses net of taxes which are associated with the purchase, sale, issue or cancellation of EADS own shares are recognised within equity.

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 **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 only recognised when a detailed formal plan for the restructuring - including the concerned business or part of the business, the principal locations affected, details regarding the employees affected, the restructuring's timing and expenditures that will have to be undertaken - has been developed and the restructuring has either commenced or the plan's main features have already been publicly 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 recognises periodical actuarial gains and losses in full for all its defined benefit plans immediately in retained earnings and presents them in its Consolidated Statements of Recognised Income and Expense (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 leads 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**. In 2007, EADS also introduced a performance and restricted unit plan which qualifies as **cash settled share-based payment plan** under IFRS 2. For both types, associated services received are measured at fair value and are calculated by multiplying the number of options (or units) expected to vest with the fair value of one option (or unit) as of grant date (balance sheet date). The fair value of the option (or unit) is determined by applying the Black Scholes Option Pricing Model.

The fair value of the services is recognised as personnel expense. In case of equity settled share based payment plans the personnel expense results in a corresponding increase in consolidated retained earnings over the vesting period of the respective plan. For cash settled share based payment plans a corresponding liability is recognised. Until the liability is settled its fair value is remeasured at each balance sheet date through the income statement.

Part of the grant of both types of share-based payment plans 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 of an equity settled share-based payment plan 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 1st January 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.

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.

Financing liabilities — Financing liabilities comprise obligations towards financial institutions, issued corporate bonds, loans, loans to affiliated non-consolidated companies as well as finance lease liabilities. Financing liabilities qualify as financial liabilities and are recorded initially at the fair value of

the proceeds received, net of transaction costs incurred. Subsequently, financing liabilities other than finance lease 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 “Total finance income (costs)” over the period of the financing liability.

Other liabilities — Other liabilities comprise other financial liabilities such as refundable advances and derivatives having a negative market value and other non-financial liabilities such as advance payments received from customers. 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 subject to the success of the project. Because of their risk-sharing basis, such refundable advances are recorded as “Other Liabilities”.

In the course of the implementation of IFRS 7, EADS changed its balance sheet presentation in 2007 retrospectively for 31st December 2006 regarding derivatives having a negative market value formerly presented in “Provisions for negative fair values of derivative financial instruments” (IAS 39 Hedging contracts) to “Other liabilities” in order to present them as financial liability. Further, EADS uses financial liabilities representing payment obligations towards airlines denominated in USD as hedging instruments to hedge the foreign currency risk inherent in future aircraft sales under a cash flow hedge.

Liability for puttable instruments — Under certain circumstances, EADS records a financial liability rather than an equity instrument for the exercise price of a written put option on the entity’s equity.

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”.

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 “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 see Note 22 “Provisions”; Note 29 “Commitments and Contingencies” and Note 30 “Information about financial instruments”).

3. Scope of Consolidation

Perimeter of consolidation (31st December 2007) – The Consolidated Financial Statements include, in addition to EADS N.V.:

- 2007: 193 (2006: 212) companies which are fully consolidated,
- 2007: 34 (2006: 31) companies which are proportionately consolidated,

- 2007: 24 (2006: 26) 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”.

The percentage of the proportional consolidation of MBDA has changed from 50% to 37.5% as of 1st January 2007.

4. Acquisitions and Disposals

a) Acquisitions

In January 2007, EADS increased its share in the Atlas Elektronik group from 40% to 49% in connection with the contribution in kind of the EADS naval business into Atlas Elektronik. Atlas Elektronik is proportionately consolidated and the final allocation of the purchase price to the acquired assets and liabilities led to a goodwill of €42 million.

EADS acquired on 3rd August 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 in 2006) led to the recognition of a goodwill of €41 million.

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

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

b) Disposals

Following an agreement dated 10th January 2007, EADS sold the remaining 60% shares of Sogerma Services as well as all shares of its subsidiaries Sogerma America Barfield B.C. (100%) and EADS Sogerma Tunisie (50.1%).

On 28th February 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.

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

In 2006, 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 Daimler AG. Thus deferred tax assets and goodwill have been adjusted as of

31st December 2006 in Defence & Security by €52 million and in Headquarters by €12 million.

d) Non-Current Assets held for Sale and Discontinued Operations

With regard to the plan to sell the sites in Méaulte, St. Nazaire Ville, Nordenham, Varel, Augsburg, Laupheim and Filton, an

in-depth analysis has been performed to assess whether the requirements of IFRS 5 for the classification as disposal group(s) held for sale were met as at 31st December 2007. Considering the status of the project as of 31st December 2007, the actions still necessary to complete the plan to sell all of the sites were considered of such a magnitude that it was not unlikely that significant changes to the plan to sell could be made.

Notes to the Consolidated Income Statements (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 31st December 2007

(in €m)	Airbus	Military Transport Aircraft	Eurocopter	Defence & Security	Astrium	Other Businesses	HQ/Conso.	Consolidated
Total revenues	25,216	1,140	4,172	5,465	3,550	1,269	18	40,830
Internal revenues	(526)	(193)	(146)	(522)	(12)	(308)	0	(1,707)
Revenues	24,690	947	4,026	4,943	3,538	961	18	39,123
Segment result	(904)	(156)	210	307	165	94	41	(243)
thereof impairment charge for intangible assets and property, plant and equipment	0	0	0	0	0	0	0	0
thereof additions to other provisions (see Note 22c)	(3,084)	(27)	(325)	(622)	(103)	(56)	(226)	(4,443)
Share of profit from associates accounted for under the equity method	0	0	0	11	5	0	194	210
Profit (loss) before finance costs and income taxes	(904)	(156)	210	318	170	94	235	(33)
Disposal of goodwill	0	0	0	12	0	0	0	12
Exceptional depreciation/disposal	23	1	1	10	4	0	34	73
EBIT* pre-goodwill impairment and exceptionals (see definition in Note 5c)	(881)	(155)	211	340	174	94	269	52
Total finance costs								(737)
Income tax benefit								333
Loss for the period								(437)
Attributable to:								
Equity holders of the parent (Net loss)								(446)
Minority interests								9
OTHER INFORMATION								
Identifiable segment assets (incl. goodwill) ⁽¹⁾	34,162	2,523	5,281	9,463	6,059	1,055	(243)	58,300
thereof goodwill	6,374	12	111	2,431	574	0	17	9,519
Investments in associates	0	0	3	89	15	9	2,122	2,238
Segment liabilities ⁽²⁾	27,189	2,213	4,383	10,015	6,037	946	(584)	50,199
thereof provisions (see Note 22)	6,642	40	1,079	2,919	688	233	832	12,433
Capital expenditures (incl. leased assets)	946	102	206	233	446	57	68	2,058
Depreciation, amortisation	1,238	28	76	140	166	42	82	1,772
Research and development expenses	2,175	16	93	169	78	8	69	2,608

(1) Segment assets exclude investments in associates, current and deferred tax assets as well as cash and cash equivalents and securities as segment result does not include income from associates, total finance costs and income taxes.

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

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

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

(in €m)	Airbus	Military Transport Aircraft	Eurocopter	Defence & Security	Astrium	Other Businesses	HQ/Conso.	Consolidated
Total revenues	25,190	2,200	3,803	5,864	3,212	1,257	30	41,556
Internal revenues	(820)	(226)	(155)	(557)	(10)	(336)	(18)	(2,122)
Revenues	24,370	1,974	3,648	5,307	3,202	921	12	39,434
Segment result	(602)	71	257	270	122	(288)	296	126
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 22c)	(2,479)	(2)	(267)	(549)	(83)	(178)	227	(3,331)
Share of profit from associates accounted for under the equity method	0	0	0	17	5	0	130	152
Profit (loss) before finance costs and income taxes	(602)	71	257	287	127	(288)	426	278
Subsequent adjustment to goodwill	0	0	0	52	0	0	12	64
Exceptional depreciation	30	4	0	9	3	0	11	57
EBIT* pre-goodwill impairment and exceptionals (see definition in Note 5c)	(572)	75	257	348	130	(288)	449	399
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	4,593	9,591	5,488	1,168	490	57,004
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 22)	6,124	13	1,069	3,223	899	300	835	12,463
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 investments in associates, current and deferred tax assets as well as cash and cash equivalents and securities as segment result does not include income from associates, total finance costs and income taxes.

(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 programme.

The “EBIT* pre-goodwill impairment and exceptionals” in 2006 includes on HQ/Conso. level the elimination of an addition to the provision for loss making contracts (€352 million) recognised in the Airbus division in order to account for the positive margin of the A400M contract on EADS group level. Due to the cost increase of the contract, a negative catch-up in the amount of €(66) million had to be recognised on group level to adjust previously accounted for EBIT* for the years 2003 to 2006.

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 programme 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 €9 million in 2007 and €64 million in 2006; for further details see Note 5e) “Capital expenditures”).

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

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)	2007	2006	2005
Profit (loss) before finance costs and income taxes	(33)	278	2,712
Disposal of goodwill/subsequent adjustment to goodwill (see Note 4 c.)	12	64	0
Exceptional depreciation/disposal (fixed assets)	73	57	136
Exceptional depreciation (others)	0	0	4
EBIT* pre-goodwill impairment and exceptionals	52	399	2,852

d) Revenues by Destination

(in €m)	2007	2006	2005
Germany	4,332	4,126	3,235
France	3,450	4,271	3,511
United Kingdom	1,991	2,953	2,682
Spain	1,173	1,361	1,017
Other European Countries	6,436	4,465	3,126
North America	7,923	9,425	9,026
Asia/Pacific	8,826	7,857	7,734
Middle East	2,507	3,334	1,860
Latin America	2,054	1,213	645
Other Countries	431	429	1,370
Consolidated	39,123	39,434	34,206

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

e) Capital Expenditures

(in €m)	2007	2006	2005
France	819	968	946
Germany	477	789	962
United Kingdom	512	715	707
Spain	161	187	150
Other Countries	59	49	53
Capital expenditures excluding leased assets	2,028	2,708	2,818
Leased assets	30	147	40
Capital expenditures	2,058	2,855	2,858

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

f) Property, Plant and Equipment by Geographical Area

(in €m)	2007	2006	2005
Germany	3,715	3,909	3,852
France	3,908	3,548	3,140
United Kingdom	3,028	3,177	2,682
Spain	976	937	901
Other Countries	447	615	857
Property, plant and equipment by geographical area	12,074	12,186	11,432

Property, plant and equipment split by geographical area excludes leased assets (2007: €1,319 million, 2006: €1,992 million and 2005: €2,385 million).

6. Revenues

Revenues in 2007 reached €39,123 million compared to €39,434 million in 2006 and €34,206 million in 2005. Revenues in 2007 decreased in comparison to 2006 mainly in Military Transport Aircraft and Defence divisions. The decline at Defence was caused by the change in the percentage of the proportional consolidation from 50% to 37.5% of MBDA. On a comparable basis, revenues of 2006 would have been lower by €418 million. Revenues increased mainly at Eurocopter and Astrium.

Detail of Revenues:

(in €m)	2007	2006	2005
Total revenues	39,123	39,434	34,206
Thereof revenues from the delivery of goods & services	31,813	31,487	28,649
Thereof revenues from construction contracts	6,241	7,001	4,706

The revenues from construction contracts decrease in 2007 in the Military Transport Aircraft division resulting from A400M partly offset in the Defence & Security and Astrium divisions.

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. In 2007, the revenues from the delivery of goods & services comprise revenues from services including the sale of spare parts of €4,554 million.

For a breakdown of revenues by business segment and geographical region, refer to Note 5 “Segment Reporting”.

7. Functional Costs

Inventories recognised as an expense during the period amount to €25,259 million (2006: €26,267 million; 2005: €20,800 million).

€49 million (2006: €57 million; 2005: €136 million); these are related to the EADS merger, the Airbus Combination and the formation of MBDA.

Cost of sales include the amortisation expenses of fair value adjustments of fixed assets and inventories in the amount of

Personnel expenses are:

(in €m)	2007	2006	2005
Wages, salaries and social contributions	8,696	8,397	8,108
Net periodic pension cost (see Note 22 b)	385	334	377
Total	9,081	8,731	8,485

The decrease in the EADS **gross margin** from €4,712 million to €4,321 million reflects among others charges for A350 and A400M programmes and for Power8 restructuring.

8. Other Income

(in €m)	2007	2006	2005
Other income	233	297	222
Thereof rental income	37	47	48
Thereof income from sale of fixed assets	92	23	39
Thereof release of allowances	11	3	9

Other income in 2007 includes among others the gain from the sale of property in Vélizy, Villepreux and Montigny le Bretonneux in the amount of €50 million as well as the gain from the disposal of investment properties in Neuauwing and

Nabern amounting to €20 million, whereas in 2006 the gain from the sale of LFK GmbH and TDW GmbH in the amount of €111 million was included.

9. Share of Profit from Associates Accounted for under the Equity Method and Other Income from Investments

(in €m)	2007	2006	2005
Share of profit from associates	210	152	210
Other income from investments	86	37	15
Total	296	189	225

The **share of profit from associates accounted for under the equity method** in 2007 is mainly derived from the result of the equity investment in Dassault-Aviation of €194 million (2006: €130 million; 2005: €205 million).

The Dassault-Aviation Group reported in 2007 a net income of €382 million (2006: €281 million) of which EADS recognised an amount of €177 million (2006: €130 million) according to its share of 46.3%. In 2007 the equity investment income from

Dassault-Aviation includes positive IFRS catch-up adjustments amounting to €17 million (2006: €0 million; 2005: €64 million).

Other income from investments comprises in 2007 the capital gain of €46 million from the disposal of the 2.13% interest in

Embraer and the dividend payment from the Eurofighter Jagdflugzeug GmbH of €13 million. In 2006, other income from investments includes the capital gain of €17 million from the sale of the 13% stake in Diehl BGT Defence GmbH & Co. KG.

10. Total Finance Costs

Interest result in 2007 comprises interest income of €502 million (2006: €454 million; 2005: €423 million) and interest expense of €(701) million (2006: €(575) million; 2005: €(578) million). Included in interest income is the return on cash and cash equivalents, securities and financial assets such as loans and finance leases. Interest expense includes interest on European Government refundable advances of €289 million (2006: €266 million; 2005: €236 million) and on financing liabilities.

Other financial result in 2007 includes among others negative foreign exchange rate effects of Airbus €(274) million (negative impact in 2006: €(136) million; positive impact in 2005: €147 million), charges from the unwinding of discounted provisions at Airbus amounting to €(202) million (2006: €(22) million) and a burden from the fair value measurement of embedded derivatives not used in hedging relationships in the amount of €(5) million (positive impact in 2006: €46 million; negative impact in 2005: €(108) million).

11. Income Taxes

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

(in €m)	2007	2006	2005
Current tax expense	(64)	(112)	(439)
Deferred tax benefit/(expense)	397	193	(386)
Total	333	81	(825)

The Group's parent company, EADS N.V., legally seated in Amsterdam, the Netherlands, applies Dutch tax law using an income tax rate of 25.5% for 31st December 2007 (for 2006: 29.6% and for 2005: 31.5%). In 2006, a new tax law was enacted reducing the income tax rates from 2007 onwards to 25.5%.

Deferred tax assets and liabilities for the Group's French subsidiaries were calculated at 31st December 2007 and 2006 using the enacted tax rate of 34.43% for temporary differences. In 2004, the French corporate tax rate in effect was 33 1/3% plus surcharges of 3% ("contribution additionnelle") and 3.3% ("contribution sociale"). In 2004, the French Finance Law (FFL) for 2005 was enacted resulting in a reduction of the "contribution additionnelle" to 1.5% in 2005 and nil from 2006 onwards. Accordingly, the applied tax rate for 2007 and 2006 in France is 34.43% (2005: 34.93%).

In 2007, the German government enacted new tax legislation ("Unternehmensteuerreformgesetz 2008") which decreased the federal corporate tax rate from 25% to 15%, being effective as of

1st January 2008. In addition there is a surcharge ("Solidaritätszuschlag") of 5.5% on the amount of federal corporate taxes. For trade taxes, the basic measurement rate has been reduced from 5% to 3.5%, but the tax deductibility of trade tax has been abolished. In aggregate, the enacted tax rate which has been applied to German deferred taxes as of 1st January 2007 amounts to 30% (2006 and 2005: 38.5%).

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

All other foreign subsidiaries apply their national tax rates, among others United Kingdom 28% (in 2006: 30%).

The following table shows a reconciliation from the theoretical income tax benefit (expense) – using the Dutch corporate tax rate of 25.5% as at 31st December 2007, 29.6% as at 31st December 2006 and 31.5% at 31st December 2005 – 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)	2007	2006	2005
Profit (loss) before income taxes	(770)	34	2,535
* Corporate income tax rate	25.5%	29.6%	31.5%
Expected benefit (expense) for income taxes	196	(10)	(799)
Effects from tax rate differentials	133	65	(54)
Income from investments/associates	109	103	62
Tax credit for R&D expenses	20	34	35
Change of tax rate	(106)	85	(1)
Change in valuation allowances	(3)	(198)	(14)
Tax-free income and non-deductible expenses	(19)	(30)	(28)
Other	3	32	(26)
Reported tax benefit (expense)	333	81	(825)

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. Furthermore in 2006, 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 Daimler AG. Thus deferred tax

assets have been adjusted resulting in a reconciling item of €39 million and included in “other”.

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)	31 st December 2006		Movement through equity		Movement through income statement		31 st December 2007	
	Tax assets	Tax liabilities	OCI/IAS 19	Others ⁽¹⁾	R&D tax credits	Deferred tax benefit (expense)	Tax assets	Tax liabilities
Intangible assets	14	(209)	0	(24)	0	48	22	(193)
Property, plant and equipment	106	(1,224)	0	20	0	103	152	(1,147)
Investments and other long-term financial assets	51	(97)	4	0	0	137	131	(36)
Inventories	669	(227)	0	(10)	0	33	895	(430)
Receivables and other assets	87	(2,445)	(6)	0	0	218	84	(2,230)
Prepaid expenses	1	(23)	0	15	0	(8)	1	(16)
Provision for retirement plans	1,043	0	(173)	(3)	0	(225)	642	0
Other provisions	944	(71)	0	(3)	0	722	1,752	(160)
Liabilities	782	(508)	129	(8)	0	(359)	690	(654)
Deferred income	529	(24)	0	(7)	0	(36)	486	(24)
Net operating loss and tax credit carry forwards	1,425	0	0	(26)	45	(296)	1,148	0
Deferred tax assets/(liabilities) before offsetting	5,651	(4,828)	(46)	(46)	45	337	6,003	(4,890)
Valuation allowances on deferred tax assets	(664)	0	0	8	0	60	(596)	0
Set-off	(2,363)	2,363	0	0	0	0	(2,702)	2,702
Net Deferred tax assets/(liabilities)	2,624	(2,465)	(46)	(38)	45	397	2,705	(2,188)

(1) "Others" mainly comprises foreign exchange rate effect and changes in consolidation.

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. The Group has various unresolved issues concerning open income tax years with the tax authorities in a number of jurisdictions. EADS believes that it has recorded adequate provisions for future

income taxes that may be owed for all open tax years. Companies in deficit situations in two or more subsequent years recorded a total deferred tax asset balance of €35 million (in 2006: €102 million). 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	U.K.	Netherlands	Other countries	31 st December 2007	31 st December 2006
Net Operating Losses (NOL)	507	630	58	1,610	17	43	2,865	3,514
Trade tax loss carry forwards	-	586	-	-	-	-	586	880
Tax credit carry forwards	-	-	300	-	5	-	305	249
Tax effect	174	183	318	451	10	12	1,148	1,425
Valuation allowances	(28)	(77)	-	(399)	-	(4)	(508)	(513)
Deferred tax assets on NOL's and tax credit carry forwards	146	106	318	52	10	8	640	912

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 million) will expire in 2014. In the Netherlands NOLs and tax credit carry forwards expire after 9 years.

Roll forward of deferred taxes:

(in €m)	2007	2006
Net deferred tax asset beginning of the year	159	604
Deferred tax benefit in income statement	397	193
Deferred tax recognised directly in AOCI (IAS 39)	127	(638)
Variation of Defined benefit plan actuarial gains	(173)	(24)
Others	7	24
Net deferred tax asset at year end	517	159

Details of deferred taxes recognised in equity are as follows:

(in €m)	2007	2006
Available-for-sale investments	(2)	(6)
Cash flow hedges	(1,582)	(1,705)
Defined benefit plan actuarial losses	226	399
Total	(1,358)	(1,312)

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 31st December 2007 is as follows:

Cost

(in €m)	Balance at 1 st January 2007	Exchange differences	Additions	Changes in consolidation scope	Reclassification	Disposals	Balance at 31 st December 2007
Goodwill	10,710	(29)	9	(29)	0	(12)	10,649
Capitalised development costs	885	(18)	93	(2)	2	(2)	958
Other intangible assets	1,140	(7)	163	7	0	0	1,303
Total	12,735	(54)	265	(24)	2	(14)	12,910

Amortisation

(in €m)	Balance at 1 st January 2007	Exchange differences	Amortisation charge	Changes in consolidation scope	Reclassification	Disposals	Balance at 31 st December 2007
Goodwill	(1,145)	9	0	6	0	0	(1,130)
Capitalised development costs	(12)	0	(46)	0	(2)	2	(58)
Other intangible assets	(723)	7	(181)	7	0	0	(890)
Total	(1,880)	16	(227)	13	(2)	2	(2,078)

Net book value

(in €m)	Balance at 1 st January 2007	Exchange differences	Additions	Changes in consolidation scope	Reclassification	Disposals	Balance at 31 st December 2007
Goodwill	9,565	(20)	9	(23)	0	(12)	9,519
Capitalised development costs	873	(18)	47	(2)	0	0	900
Other intangible assets	417	0	(18)	14	0	0	413
Total	10,855	(38)	38	(11)	0	(12)	10,832

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

Cost

(in €m)	Balance at 1 st January 2006	Exchange differences	Additions	Changes in consolidation scope	Reclassification	Disposals	Balance at 31 st December 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 1 st January 2006	Exchange differences	Amortisation charge	Changes in consolidation scope	Reclassification	Disposals	Balance at 31 st December 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 1 st January 2006	Exchange differences	Additions	Changes in consolidation scope	Reclassification	Disposals	Balance at 31 st December 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) million and finalisation of tax audit of €(64) million (see below for further details).

On 7th June 2006 BAE Systems exercised a put option to sell its 20% stake in Airbus at a fair value of €2,750 million to EADS (accounted at 31st December 2005 with €3,500 million). The transaction became effective as of 13rd October 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 million after taking into consideration a dividend payment to BAE Systems of €129 million in 2006 and transaction costs.

In 2006, 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 Daimler AG. Thus

deferred tax assets and goodwill have been adjusted as of 31st December 2006 in Defence & Security by €52 million and Headquarters by €12 million.

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

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 31st December 2007 and 2006, 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 31 st December 2007	6,374	12	111	2,431	574	0	17	9,519
Goodwill as of 31 st December 2006	6,374	12	111	2,476	575	0	17	9,565

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 of 3 to 4% 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 31st December 2007 the total hedge portfolio with maturities up to 2013 amounts to USD 51 billion (of which USD 6 billion relate to USD/GBP hedges) and covers a major portion of the foreign exchange exposure expected over the period of the operative planning (2008 to 2012). The average USD/€ hedge rate of the USD/€ hedge portfolio until 2013 amounts to USD/€ 1.26 and for the USD/GBP hedge portfolio until 2012 amounts to USD/GBP 1.71. For the determination of the operative planning in the Cash Generating Units management assumed future exchange rates of USD/€ 1.45 for 2008 onwards and GBP/€ 0.70 from 2008 onwards to convert in € the portion of future USD 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 U.K., Airbus Germany and Airbus Spain.

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 management current best assessment as of the date of these Consolidated Financial Statements:

- Projected cash flows for the next five years are based on Airbus operative plan. In the absence of long-term financial reference, expected cash flows generated beyond the planning horizon are considered through a Terminal Value. The terminal value has been based on a normative view covering a full aeronautic cycle. The Long Range segment is reflected separately through the Business Case of A350 XWB programme.
- Airbus general market forecast was used as a long-term business assumption with sustaining of current market share per segment. No severe market downturn is forecasted. Cash flow projections include all of the estimated cost savings of the Power8 programme.
- Cash flows have been determined per currency (U.S. dollar and Euro). Accordingly applied discount rates reflect interest rate differential between dollar and euro zones. The USD denominated cash flows were discounted using a weighted average cost of capital after-tax (WACC) of 9.3%, while the Euro denominated cash flows' WACC was 9.5%. The USD discounted flows were then converted into € using U.S. dollar/Euro market spot rate (for the terminal value, the forward rate applied is USD/€ 1.50).
- Carrying value as well as planned cash flow include benefits from the existing hedge portfolio as per end December 2007.

With regard to the assessment of the fair value less cost to sell for the CGU Airbus, EADS management believes that the likelihood of a change in the above key assumptions to an extent that would cause the recoverable amount to fall below the carrying value is remote.

The recoverable amount is particularly sensitive in the following areas:

- A change of the Euro against the U.S. dollar by 5 cents would lead to a change of the recoverable amount by +3.4 bn € (if 5 cents in decrease), -3.1 bn € (if 5 cents in addition).
- A reduction in the perpetuity growth rate by 0.5% would lead to a reduction of the recoverable amount by -0.9 bn €.
- An increase of 50 basis points in the WACC would change the recoverable amount by -1.8 bn €, a decrease by +2 bn €.
- 50% achievement of the planned cash savings of Power8 plan would change the recoverable amount by -11.3 bn €. Such a shortfall would trigger additional structural measures that cannot be sized at this stage.

The current positive difference between the recoverable value and the book value of Airbus' net assets indicates, that individually each of the assessed (negative) impacts of sensitivities would not imply an impairment charge in the EADS accounts.

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 12.1%. Cash flow projections are based on current operative planning covering a five-year planning period.

For the Defence & Security division, a sustainable growth in revenues is assumed in the operative planning. This is driven

by a strong order intake in 2007 and further key orders expected in the next three years, as for example Eurofighter 3rd tranche and export contracts - Unmanned Aerial Vehicles ("UAV") and Missile export orders. The operating margin of the division is expected to increase over the operative planning period thanks to the constantly volume growth and benefiting from initiated cost saving programmes.

The order book of the Astrium division as of 31st December 2007 (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 successful launch of Skynet 5A and 5B in 2007, despite further development and production of the Skynet V satellites and ground infrastructure had a positive impact on Astrium Division's 2007 cash flow and will positively contribute in the future, thanks to the ramped-up level of revenues from the U.K. Ministry of Defence (MoD).

The recoverable amounts of all Cash Generating Units have exceeded their carrying amounts, indicating no goodwill impairment for 2007 and 2006.

Development Costs

EADS has capitalised development costs in the amount of €900 million as of 31st December 2007 (€873 million as of 31st December 2006) as internally generated intangible assets mainly for the Airbus A380 programme. The amortisation for the A380 programme has started when entering into final assembly line, on a unit of production basis.

13. Property, Plant and Equipment

Schedules detailing gross values, accumulated depreciation and net values of property, plant and equipment show the following as of 31st December 2007:

Cost

(in €m)	Balance at 1 st January 2007	Exchange differences	Additions	Change in consolidation scope ⁽¹⁾	Reclassification	Disposals	Balance at 31 st December 2007
Land, leasehold improvements and buildings including buildings on land owned by others	6,142	(49)	135	(49)	419	(126)	6,472
Technical equipment and machinery	10,063	(314)	402	(59)	1,355	(313)	11,134
Other equipment, factory and office equipment	5,067	(170)	203	(37)	(12)	(1,195)	3,856
Advance payments relating to plant and equipment as well as construction in progress	3,618	(137)	1,066	(1)	(2,059)	(13)	2,474
Total	24,890	(670)	1,806	(146)	(297)	(1,647)	23,936

Depreciation

(in €m)	Balance at 1 st January 2007	Exchange differences	Additions	Change in consolidation scope ⁽¹⁾	Reclassification	Disposals	Balance at 31 st December 2007
Land, leasehold improvements and buildings including buildings on land owned by others	(2,319)	10	(259)	22	34	88	(2,424)
Technical equipment and machinery	(5,886)	191	(967)	44	122	304	(6,192)
Other equipment, factory and office equipment	(2,462)	77	(263)	33	68	665	(1,882)
Advance payments relating to plant and equipment as well as construction in progress	(45)	1	(2)	0	0	1	(45)
Total	(10,712)	279	(1,491)	99	224	1,058	(10,543)

Net book value

(in €m)	Balance at 1 st January 2007	Exchange differences	Additions	Change in consolidation scope ⁽¹⁾	Reclassification	Disposals	Balance at 31 st December 2007
Land, leasehold improvements and buildings including buildings on land owned by others	3,823	(39)	(124)	(27)	453	(38)	4,048
Technical equipment and machinery	4,177	(123)	(565)	(15)	1,477	(9)	4,942
Other equipment, factory and office equipment	2,605	(93)	(60)	(4)	56	(530)	1,974
Advance payments relating to plant and equipment as well as construction in progress	3,573	(136)	1,064	(1)	(2,059)	(12)	2,429
Total	14,178	(391)	315	(47)	(73)	(589)	13,393

(1) The percentage of the proportional consolidation of MBDA has been changed from 50% to 37.5% as of 1st January 2007 leading to an impact of €(64) million in 2007.

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

Cost

(in €m)	Balance at 1 st January 2006	Exchange differences	Additions	Change in consolidation scope	Reclassification	Disposals	Balance at 31 st December 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 1 st January 2006	Exchange differences	Additions	Change in consolidation scope	Reclassification	Disposals	Balance at 31 st December 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 1 st January 2006	Exchange differences	Additions	Change in consolidation scope	Reclassification	Disposals	Balance at 31 st December 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 million.

(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 million.

(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 million.

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

Property, plant and equipment include at 31st December 2007 and 2006, buildings, technical equipment and other equipment accounted for in fixed assets under finance lease agreements for net amounts of €121 million and €140 million, net of accumulated depreciation of €128 million and €399 million. The related depreciation expense for 2007 was €12 million (2006: €35 million; 2005: €31 million). 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

The corresponding non-cancellable future operating lease payments (not discounted) due from customers to be included in revenues, at 31st December 2007 are as follows:

(in €m)	
Not later than 2008	84
Later than 2008 and not later than 2012	219
Later than 2012	151
Total	454

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

€1,319 million and €1,992 million as of 31st December 2007 and 2006, respectively; related accumulated depreciation is €891 million and €1,509 million. Depreciation expense for 2007 amounts to €105 million (2006: €137 million; 2005: €231 million).

The “aircraft under operating lease” include:

- 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).

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

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

(in €m)	31 st December 2007	31 st December 2006
(i) Net book value of aircraft under operating lease before impairment charge	600	1,216
Accumulated impairment	(102)	(272)
Net book value of aircraft under operating lease	498	944
(ii) Aircraft under operating lease with the present value of the guarantee being more than 10%	821	1,048
Total Net Book value of aircraft under operating lease	1,319	1,992

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

14. Investments in Associates Accounted for under the Equity Method, Other Investments and Other Long-Term Financial Assets

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

(in €m)	31 st December 2007	31 st December 2006
Investments in associates accounted for under the equity method	2,238	2,095
Non-current other investments and other long-term financial assets		
Other investments	404	545
Other long-term financial assets	1,149	1,121
Total	1,553	1,666
Current portion of other long-term financial assets	166	103

Investments in associates accounted for under the equity method as of 31st December 2007 and 2006, mainly contain EADS' interest in Dassault-Aviation Group (46.30% at 31st December 2007 and at 31st December 2006) of €2,121 million and €1,985 million. The Dassault-Aviation Group reported in 2007 a net income of €382 million (2006: €281 million) of which EADS recognised an amount of

€177 million (2006: €130 million) according to its share of interest. In 2007, the equity investment income from Dassault-Aviation includes positive IFRS catch-up adjustments amounting to €17 million (2006: €0 million). In addition, as at 31st December 2007, €(6) million (in 2006: €34 million) 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 31st December 2007 and 2006:

(in €m)	31 st December 2007	31 st December 2006
Share of the associate's balance sheet:		
Non-current assets	1,949	1,549
Current assets	2,487	2,353
Non-current liabilities	145	175
Current liabilities	2,554	2,126
Total equity	1,737	1,601
Share of the associate's revenues and profit:		
Revenues	1,891	1,529
Net Income	177	130
Carrying amount of the investment	2,121	1,985

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 31st December 2007, the participation of 10% in Irkut amounting to €62 million (2006: €77 million). The investment in Embraer was sold in February 2007 (2006: €123 million).

Other long-term financial assets of €1,149 million (2006: €1,121 million) and the **current portion of other long-term financial assets** of €166 million (in 2006: €103 million) encompass mainly the Group's sales finance activities in the form of finance lease receivables and loans from aircraft financing. They are reported net of accumulated impairments. These sales financing transactions are generally secured by the underlying aircraft used as collateral (see Note 29 "Commitments and contingencies" for details on sales financing transactions).

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

(in €m)	31 st December 2007	31 st December 2006
Outstanding gross amount of loans to customers	346	247
Accumulated impairment	(79)	(90)
Total net book value of loans	267	157

Finance lease receivables from aircraft financing are as follows:

(in €m)	31 st December 2007	31 st December 2006
Minimum lease payments receivables	795	901
Unearned finance income	(105)	(162)
Accumulated impairment	(112)	(109)
Total net book value of finance lease receivables	578	630

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

(in €m)	
Not later than 2008	128
Later than 2008 and not later than 2012	269
Later than 2012	398
Total	795

Additionally included are €470 million and €437 million of other loans as of 31st December 2007 and 2006, e.g. loans to employees.

Defeased bank deposits of €677 million and €927 million as of 31st December 2007 and 2006, respectively have been offset against financing liabilities.

15. Inventories

Inventories at 31st December 2007 and 2006 consist of the following:

(in €m)	31 st December 2007	31 st December 2006
Raw materials and manufacturing supplies	1,596	1,283
Work in progress	12,253	11,260
Finished goods and parts accounted for at lower of cost and net realisable value	1,217	1,224
Advance payments to suppliers	3,840	3,125
Total	18,906	16,892

The increase in work in progress of €993 million was mainly driven by Airbus' A380 programme, the A400M programme and the ramp-up at Eurocopter partly compensated by the MBDA quotation change from 50% to 37.5% in the amount

of €(318) million. The increase of advance payments provided to suppliers mainly reflects activities in Airbus for supplier funding and in Defence for Eurofighter Series Production Equipment.

The finished goods and parts for resale before write-down to net realisable value amount to €1,565 million in 2007 (2006: €1,559 million) and work in progress before write-down to net realisable value amounts to €13,632 million (2006: €12,186 million). 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 charges in 2007 and 2006 for work in progress mainly relate to the A380 programme.

16. Trade Receivables

Trade receivables at 31st December 2007 and 2006 consist of the following:

(in €m)	31 st December 2007	31 st December 2006
Receivables from sales of goods and services	5,026	5,227
Allowance for doubtful accounts	(387)	(375)
Total	4,639	4,852

Trade receivables are classified as current assets. As of 31st December 2007 and 2006, respectively, €175 million and €132 million of trade receivables are not expected to be collected within one year.

In application of the **percentage of completion** (POC) method, as of 31st December 2007 an amount of €1,488 million (in 2006: €1,477 million) for construction contracts is included in the trade receivables net of related advance payments received.

(in €m)	2007
Construction contracts: assets	5,134
Construction contracts: liabilities	(5,409)
Construction contracts, net liabilities	(275)
<u>This amount corresponds to:</u>	
Aggregated amount of costs incurred and recognised profits (less recognised losses) to date;	21,128
Less, progress billings	(21,403)

The respective movement in the allowance for doubtful accounts in respect of trade receivables during the year was as follows:

(in €m)	2007	2006
Allowance balance at 1 st January	(375)	(407)
Utilisations/Disposals	18	53
Write-downs/reversal of write downs	(33)	(18)
Foreign exchange rate differences	3	(3)
31st December	(387)	(375)

Based on historic default rates, the Group believes that no allowance for doubtful accounts is necessary in respect of trade receivables not past due in the amount of €3,403 million.

17. Other Assets

Other assets at 31st December 2007 and 2006 consist of the following:

(in €m)	31 st December 2007	31 st December 2006
Non current other assets		
Positive fair values of derivative financial instruments	2,440	3,235
Prepaid expenses	808	683
Capitalised settlement payments to German Government	166	198
Others	129	115
Total	3,543	4,231
Current other assets		
Positive fair values of derivative financial instruments	2,955	2,032
Value Added Tax claims	627	595
Prepaid expenses	401	384
Receivables from related companies	363	289
Receivables from affiliated companies	81	125
Loans	101	37
Others	644	552
Total	5,172	4,014

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 €4,289 million and €1,843 million as of 31st December 2007 and 2006, respectively. The security portfolio contains a **non-current portion** of available-for-sale-securities of €2,406 million (in 2006: €1,294 million) and securities designated at fair value through profit and loss of €285 million (in 2006: €0 million) as well as a **current portion** of available-for-sale-securities of €1,598 million (in 2006: €549 million).

Included in the securities portfolio as of 31st December 2007 and 2006, respectively are corporate bonds bearing either fixed

rate coupons (€827 million nominal value; 2006: €489 million) or floating rate coupons (€3,219 million nominal value; 2006: €993 million) as well as capital protected Notes of Hedgefunds (€275 million nominal value; 2006: €0 million) and other funds (€4 million nominal value). In 2006, there were additionally also credit instruments bearing floating rate coupons (€294 million nominal value) and equity instruments (€51 million nominal value).

19. Non-Current Assets/Disposal Groups Classified as Held for Sale

At 31st December 2007 EADS Group does not account for **non-current assets/disposal groups classified as held for sale** (in 2006: €76 million). The previous year's figure concerns assets and disposal groups mainly related to Sogerma. The disposal group in 2006 includes **liabilities directly associated with non-current assets classified as held for sale** amounting to €64 million.

At 31st December 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) million.

As of 1st December 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 31st December 2006.

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

As of 31st December 2006, 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 million and comprise current other liabilities (€27 million), provisions (€14 million), short term financing liabilities (€12 million) and other liabilities (€11 million).

20. Total Equity

The reconciliation of movement in capital and reserves for the years ended 31st December 2007, 2006 and 2005 is presented in the following table:

(in €m)	Note	Equity attributable to equity holders of the parent					Total	Minority interests	Total equity
		Capital stock	Share premium	Other reserves	Accumulated other comprehensive income	Treasury shares			
Balance at 31st December 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		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						(288)	(288)		(288)
Cancellation of treasury shares		(1)	(19)			20	0		0
Balance at 31st December 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		5	89				94		94
Share-based Payment (IFRS 2)	31			40			40		40
Cash distribution to EADS N.V. shareholders/dividends paid to minority interests			(520)				(520)	(16)	(536)
Change in minority interests							0	4	4
Purchase of treasury shares						(35)	(35)		(35)
Cancellation of treasury shares		(7)	(124)			131	0		0
Balance at 31st December 2006		816	8,160	(567)	4,955	(349)	13,015	137	13,152
Total recognised income and expenses				(43)	121		78	41	119
Capital increase		3	43				46	2	48
Share-based Payment (IFRS 2)	31			48			48		48
Cash distribution to EADS N.V. shareholders/dividends paid to minority interests			(97)				(97)	(1)	(98)
Change in minority interests ⁽¹⁾							0	(94)	(94)
Cancellation of treasury shares		(5)	(138)			143	0		0
Balance at 31st December 2007		814	7,968	(562)	5,076	(206)	13,090	85	13,175

(1) The total amount is related to the change in the percentage of the proportional consolidation of MBDA from 50% in 2006/2005 to 37.5%; please refer to Note 3 "Scope of Consolidation".

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

Number of shares	2007	2006
Issued as at 1st January	815,931,524	817,743,130
Issued for ESOP	2,037,835	0
Issued for exercised options	613,519	4,845,364
Cancelled	(4,568,405)	(6,656,970)
Issued as at 31st December	814,014,473	815,931,524
Treasury shares as at 31 st December	(9,804,998)	(13,800,531)
Outstanding as at 31st December	804,209,475	802,130,993

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

On 4th May 2007, the Shareholders' General Meeting of EADS renewed the authorisation given to the Board of Directors 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 will be limited to 1% of the Company's authorised capital from time to time and to have powers to limit and to exclude preferential subscription rights, in both cases for a period expiring at the Shareholders' General Meeting to be held in 2009.

The Shareholders' General Meeting on 4th May 2007 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 4th May 2006.

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 4,568,405 shares. On 12th July 2007, the Chief Executive Officers decided to cancel 4,568,405 treasury shares.

On 4th May 2007, the Shareholders' General Meeting also decided to distribute the result of the fiscal year 2006 resulting

in a gross amount of €0.12 per share, which was paid on 16th May 2007. Relating to the fiscal year 2007 a cash distribution of €0.12 per share is proposed.

In total EADS purchased in 2007 572,872 treasury shares (in 2006: sale of 145,203 treasury shares) and cancelled 4,568,405 shares (in 2006: 6,656,970 shares), resulting in an amount of 9,804,998 treasury shares at 31st December 2007 (in 2006: 13,800,531 treasury shares).

Capital stock comprises the nominal amount of shares outstanding. The addition to capital stock represents the contribution for exercised options of €613,519 (in 2006: €4,845,364) in compliance with the implemented stock option plans and €2,037,835 by employees under the 2007 Employee Stock Ownership Plan. In 2006, the Employee Stock Ownership Plan was cancelled and consequently, EADS did not issue any new shares.

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.

21. Capital Management

EADS seeks to maintain a strong financial profile to safeguard its going concern, financial flexibility as well as shareholders' and other stakeholders' confidence in the Group.

As part of its capital management, it is one of EADS' objectives to maintain a strong credit rating by institutional rating agencies. This enables EADS to contain the Group's cost of capital which positively impacts its stakeholder value (entity value). Next to other also non-financial parameters, the credit rating is based on factors such as capital ratios, profitability and liquidity ratios. EADS focuses on keeping them in a preferable range.

Currently, EADS' long-term rating from Standard & Poor's is BBB+ (Outlook: stable) and A1 (Outlook: stable) from Moody's Investors Service respectively. In accordance with its conservative financial policy it is essential for EADS to maintain an investment grade rating.

EADS' management currently implements a monitoring system which allows benchmarking the return on capital by comparing it with the cost of capital. EADS basically defines return on capital as operating income before interest expense after tax (NOPAT) divided by the sum of total shareholders' equity and

interest bearing liabilities, excluding components arising from cash flow hedges.

The Group also monitors the level of dividends paid to its shareholders.

As mentioned above, the Group reassessed its approach to capital management in 2007. The focus is now on total interest bearing liabilities as one of the capital components rather than on "net liabilities" (interest bearing liabilities net of cash and cash equivalents) as in previous years. Capital management is part of EADS' management by objectives which is planned to be re-aligned with EADS' change in capital definition.

EADS satisfies its obligations arising from share-based payment plans by issuing new shares. In order to avoid any dilution of its current shareholders out of these share-based payment plans, EADS has accordingly decided to buy back and cancel its own shares following the decisions of the Board of Directors and approval of the Annual General Meeting (AGM). Apart from this purpose, EADS generally does not trade with treasury shares.

EADS complies with the capital requirements under applicable law and its articles of association.

22. Provisions

Provisions are comprised of the following:

(in €m)	31 st December 2007	31 st December 2006
Provision for retirement plans (see Note 22 b)	4,517	5,747
Provision for deferred compensation (see Note 22 a)	151	136
Retirement plans and similar obligations	4,668	5,883
Other provisions (see Note 22 c)	7,765	6,580
Total	12,433	12,463
Thereof non-current portion	8,055	8,911
Thereof current portion	4,378	3,552

Regarding the retrospective change in presentation of "Other provisions" (€(152) million in non-current portion and €(79) million in current portion) with the related reclassification of "Financial Instruments" to "Other liabilities" please refer to Note 2 "Summary of significant accounting policies".

As of 31st December 2007 and 2006, respectively, €4,382 million and €5,602 million of retirement plans and

similar obligations and €3,673 million and €3,309 million of other provisions mature after more than one year.

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 has a pension plan (P3) for executive and non-executive employees in place. Under this 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. 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 some executive employees, benefits are depending on final salary at the date of retirement and the time period as executive. In Q4 2007, EADS implemented a Contractual Trust Arrangement (CTA) for EADS' pension obligation. The CTA structure is that of a bilateral trust arrangement. Assets that are transferred to the CTA qualify as plan assets under IAS 19.

In the U.K., 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 U.K. pension plans are Airbus U.K. and MBDA U.K.. For Airbus, this remains the case even subsequent to the acquisition of BAE Systems' 20% minority interests on 13th October 2006. Participating Airbus U.K. employees have continued to remain members in the BAE Systems U.K. pension plans due to the U.K. pension agreement between EADS and BAE Systems and a change in U.K. 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 U.K. 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.

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 U.K. and until December 2007 for MBDA U.K.). Contributions exceeding the respective capped amounts are paid by BAE Systems. EADS is therefore neither exposed to increased regular contribution payments resulting from the pension plans' underfunding nor to a participation in extra contribution payments during the period of the contribution caps. Even after the expiry of the contribution caps the unique funding arrangements between BAE Systems and EADS create a situation for EADS different from common U.K. multi-employer plans with special regulations limiting regular contributions that have to be paid by Airbus U.K. and MBDA U.K. to rates applicable to all participating employers.

Based on detailed information about the different multi-employer pension schemes which BAE Systems has started to share since 31st December 2006, EADS is able to appropriately and reliably estimate the share of its participation in the schemes, i.e. its share in plan assets, defined benefit obligations (DBO) and pension costs. The information enables EADS to derive keys per plan to allocate for accounting purposes an appropriate proportion in plan assets, defined benefit obligations and pension costs to its U.K. investments as of 31st December 2007 and 2006, taking into account the impact of the capped contributions as well as future extra contributions agreed by BAE Systems with the Trustees. Therefore, EADS accounts for its participation in BAE Systems' U.K. defined benefit schemes under the defined benefit accounting approach in accordance with IAS 19.

Compared to 2006, the share of Airbus in BAE Systems' main schemes has decreased in 2007 due to a relative decrease in the number of active members. The impact of this change is reflected in actuarial gains and losses of the period.

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 U.K.			BAE Systems U.K.	
	31 st December			31 st December			31 st December	
Assumptions in %	2007	2006	2005	2007	2006	2005	2007	2006
Discount rate	5.25 - 5.35	4.5	4.0	5.8	5.1	4.7	5.8	5.2
Rate of compensation increase	3.0	3.0	3.0	4.2	3.8	3.7	4.3	4.0
Inflation rate	1.9 - 2.0	1.9 - 2.0	1.75 - 2.0	3.1	2.8	2.7	3.3	3.0
Expected return on plan assets	7.0	6.5	6.5	5.8	5.8	5.8	7.0	7.0

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

Change in defined benefit obligations (in €m)	2007	2006	2005
Defined benefit obligations at beginning of year	9,584	5,927	5,198
Service cost	213	162	153
Interest cost	429	230	252
Plan amendments	22	2	8
Actuarial (gains) and losses	(729)	(185)	517
Acquisitions, curtailments and other	(42)	(15)	2
Benefits paid	(383)	(228)	(208)
Foreign currency translation adjustment	(298)	(5)	5
Change in consolidation ⁽¹⁾	(223)	3,696	0
Defined benefit obligations at end of year	8,573	9,584	5,927

(1) Reflects the change in the percentage of the proportional consolidation of MBDA from 50% in 2006/2005 to 37.5% in 2007 and EADS' share in BAE Systems' pension schemes in 2006.

Due to the BAE Systems U.K. pension plans, service cost increased by €61 million and interest cost by €168 million. Actuarial gains which are related to the BAE Systems U.K.

pension plans amount to €(426) million and foreign currency translation adjustment amounts to €(274) million.

Change in plan assets (in €m)	2007	2006	2005
Fair value of plan assets at beginning of year	3,833	799	658
Actual return on plan assets	119	84	82
Contributions	683	212	111
Acquisitions and other	18	6	5
Benefits paid	(223)	(72)	(60)
Foreign currency translation adjustments	(242)	5	3
Change in consolidation ⁽¹⁾	(157)	2,799	0
Fair value of plan assets at end of year	4,031	3,833	799

(1) Reflects the change in the percentage of the proportional consolidation of MBDA from 50% in 2006/2005 to 37.5% in 2007 and EADS' share in BAE Systems' pension schemes in 2006.

In 2007, the actual return on plan assets of €119 million includes among others, also €42 million relating to the BAE Systems' U.K. pension plans. This actual return also includes actuarial losses on plan assets due to the decrease of EADS' share in BAE Systems' U.K. pension plans. Furthermore, €(223) million of foreign currency translation adjustments and €(122) million of benefits paid result from BAE Systems' U.K. pension plans.

In 2007, EADS implemented a Contractual Trust Arrangement (CTA) for allocating and generating plan assets in accordance with IAS 19. On 28th October 2007, some EADS companies contributed in total €500 million in cash and securities as an initial funding of the CTA.

Based on past experience, EADS expects a rate of return for plan assets of 7.0%.

In 2007, about 51% of plan assets are invested in equity securities. The remaining plan assets are invested mainly in debt instruments.

Recognised Provision (in €m)	2007	2006	2005	2004	2003
Funded status ⁽¹⁾	4,542	5,751	5,128	4,540	4,116
Unrecognised past service cost	(25)	(4)	(4)	(5)	(14)
Provision recognised in Balance Sheet	4,517	5,747	5,124	4,535	4,102

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

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 (loss) before finance costs and income taxes”, are as follows:

(in €m)	2007	2006	2005
Service cost	213	162	153
Interest cost	429	230	252
Expected return on plan assets	(260)	(58)	(42)
Net actuarial loss	0	0	14
Prior service cost	3	0	0
Net periodic pension cost	385	334	377

Due to BAE Systems’ U.K. pension plans service cost increases by €61 million and interest cost rise by €168 million. The expected return on plan assets for BAE Systems’ U.K. pension plans amounts to €(189) million.

Actuarial gains and losses, net of deferred taxes recognised in total equity amount to €(974) million and are developed as follows:

Actuarial gains and losses recognised directly in total equity (in €m)	2007	2006	2005
Cumulative amount at 1 st January	(1,808)	(1,118)	(659)
Recognised during the period ⁽¹⁾	608	(690)	(459)
Cumulative value at 31st December	(1,200)	(1,808)	(1,118)
Deferred Tax Asset at 31 st December	226	399	423
Actuarial gains and losses recognised directly in equity, net	(974)	(1,409)	(695)

(1) Included in 2007 is the change in the percentage of the proportional consolidation of MBDA from 50% in 2006/2005 to 37.5% (€37 million) and in 2006 the allocated pension deficit from U.K. pension schemes with BAE Systems as of 31st December 2006 amounting to €897 million.

The contribution to be paid in 2008 as funding for the CTA is expected to be about €155 million. The contribution expected to be paid in 2008 for the BAE Systems U.K. pension plans are expected to be in the same range as in 2007 (€74 million). For the remaining pension plans no estimate is reasonably possible.

Contribution to state pension plans mainly in Germany and France are to be considered as defined contribution plans. Contributions in 2007 amount to €518 million.

c) Other Provisions

Movements in provisions during the year were as follows:

(in €m)	Balance at 1 st January 2007	Exchange differences	Increase from passage of time	Additions	Reclassi- fication/ Change in consolidated group	Used	Released	Balance at 31 st December 2007
Outstanding costs	1,104	(1)	5	499	89	(292)	(59)	1,345
Aircraft financing risks	1,064	(94)	0	55	0	(49)	(164)	812
Contract losses	421	(2)	65	2,608	(16)	(467)	(63)	2,546
Personnel charges	410	(2)	3	153	1	(129)	(26)	410
Restructuring measures/pre-retirement part-time work	326	(5)	44	679	(19)	(96)	(26)	903
Litigations and claims	238	(18)	0	12	(33)	(18)	(4)	177
Obligation from services and maintenance agreements	211	(1)	8	116	0	(72)	0	262
Warranties	187	0	0	80	(7)	(46)	(21)	193
Asset retirement	80	0	0	8	0	0	0	88
Other risks and charges	2,539	(60)	87	233	(990)	(661)	(119)	1,029
Total	6,580	(183)	212	4,443	(975)	(1,830)	(482)	7,765

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 €311 million (€432 million at 31st December 2006) and asset value risks of €501 million (€633 million at 31st December 2006) related to Airbus and ATR (see Note 29 "Commitments and contingencies").

The provision for contract losses mainly relates to the division Airbus in conjunction with the A400M and A350 programmes. The measurement of the onerous contract provision for the A350 reflects the programme's expected cost in accordance with

the latest business case revision as well as the impact of the USD exchange rate development. The A400M loss making contract provision is based upon the reassessed cost at completion taking into account financial impacts of the delayed delivery schedule as revised in Q3 2007.

The provisions for restructuring measures mainly relate to Airbus' Power8 programme for the reduction of overhead costs. The plan was announced to the employees in 2007. The restructuring is expected to be completed in 2010.

From the provisions for other risks and charges, parts of the provisions for settlement charges in conjunction with the A380 and A350 programmes were reclassified to liabilities.

23. Financing Liabilities

In 2004, the EIB (European Investment Bank) granted a long-term loan to EADS in the amount of USD 421 million, 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" programme at floating or fixed interest rates corresponding to the individual maturities

ranging from 1 day to 12 months bearing as of 31st December 2007 an average interest rate of 4.54% (2006: 3.3%). The issued volume at 31st December 2007 amounted to €501 million (2006: €1,137 million). The programme has been set up in 2003 with a maximum volume of €2 billion. 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.

Financing liabilities include liabilities connected with sales financing transactions amounting to €1,356 million (2006: €1,702 million), thereof €396 million (2006: €480 million) at a fixed interest rate of 9.88% (2006: 9.88%) and the remaining amount mainly at variable interest rates.

Non recourse Airbus financing liabilities (risk is supported by external parties) amount to €859 million (2006: €1,058 million).

Defeased bank deposits for aircraft financing of €677 million and €927 million as of 31st December 2007 and 2006 respectively have been offset against financing liabilities.

(in €m)	31 st December 2007	31 st December 2006
Bonds	1,469	1,569
thereof due in more than five years: 430 (31 st December 2006: 453)		
Liabilities to financial institutions	952	1,141
thereof due in more than five years: 651 (31 st December 2006: 817)		
Loans	548	673
thereof due in more than five years: 382 (31 st December 2006: 347)		
Liabilities from finance leases	121	178
thereof due in more than five years: 69 (31 st December 2006: 74)		
Long-term financing liabilities	3,090	3,561
Commercial Papers/Bonds	579	1,157
Liabilities to financial institutions	108	140
Liabilities to affiliated companies	163	118
Loans	183	172
Liabilities from finance leases	69	97
Others	622	512
Short-term financing liabilities (due within one year)	1,724	2,196
Total	4,814	5,757

Included in "Others" are financing liabilities to joint ventures.

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

(in €m)	Financing liabilities
2008	1,724
2009	146
2010	1,160
2011	149
2012	103
Thereafter	1,532
Total	4,814

24. Other Liabilities

(in €m)	31 st December 2007	31 st December 2006
Non-current other liabilities		
Thereof customer advance payments	8,420	6,308
Thereof European Governments refundable advances	4,854	5,029
Thereof liabilities for derivative financial instruments	258	152
Others	595	233
Total	14,127	11,722
Current other liabilities		
Thereof customer advance payments	16,214	14,172
Thereof European Governments refundable advances	461	389
Thereof tax liabilities (excluding income tax)	557	600
Thereof liabilities to affiliated companies	46	44
Thereof liabilities to related companies	23	14
Thereof liabilities for derivative financial instruments	36	79
Others	2,346	1,941
Total	19,683	17,239

The decrease of European Governments refundable advances relates mostly to reimbursements paid. This was partly compensated by expenses for 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 €16,763 million (€15,652 million as of 31st December 2006) due within

one year and €6,660 million (€6,419 million as of 31st December 2006) maturing after more than five years.

Advance payments received relating to construction contracts amount to €3,646 million (€2,198 million as of 31st December 2006).

“Provisions for financial instruments” were retrospectively reclassified in the amount of €231 million to “Liabilities for derivative financial instruments”.

25. Trade Liabilities

As of 31st December 2007, trade liabilities amounting to €294 million (€184 million as of 31st December 2006) mature after more than one year.

26. Deferred Income

(in €m)	31 st December 2007	31 st December 2006
Non-current deferred income	753	1,110
Current deferred income	706	486
Total	1,459	1,596

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 (€955 million and €1,248 million as of 31st December 2007 and 2006, respectively).

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

27. Consolidated Statement of Cash Flows

As of 31st December 2007, EADS' cash position (stated as cash and cash equivalents in the Consolidated Statement of Cash-Flows) includes €602 million (€597 million and €579 million as of 31st December 2006 and 2005, respectively) which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAE Systems and Finmeccanica and which are available upon

demand. The percentage of the proportional consolidation of MBDA has changed from 50% to 37.5% as of 1st January 2007.

Additionally included were €1,202 million as of 31st December 2005 representing the amount Airbus had deposited at BAE Systems.

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

(in €m)	31 st December 2007	31 st December 2006	31 st December 2005
Total purchase price	(12)	(108)	(131)
thereof paid in cash and cash equivalents	(12)	(108)	(131)
Cash and cash equivalents included in the acquired subsidiaries and joint ventures	12	26	0
Cash Flow for acquisitions, net of cash	0	(82)	(131)

In 2007 the aggregate cash flow for acquisitions, net of cash of €0 million includes the acquisition of GPT Special Project Management Ltd. (GPT).

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

Included in the aggregate cash flow for acquisitions, net of cash in 2005 of €(131) million 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.

(in €m)	31 st December 2007	31 st December 2006	31 st December 2005
Intangible assets; property, plant and equipment	0	59	21
Financial assets	0	4	0
Inventories	0	44	4
Trade receivables	3	60	11
Other assets	1	4	27
Cash and cash equivalents	12	26	0
Assets	16	197	63
Provisions	(8)	(91)	(4)
Trade liabilities	(1)	(46)	0
Financing liabilities	0	(3)	0
Other liabilities	(4)	(13)	(1)
Liabilities	(13)	(153)	(5)
Fair value of net assets	3	44	58
Goodwill arising on acquisitions	9	64	73
Less own cash and cash equivalents of acquired subsidiaries and joint ventures	(12)	(26)	0
Cash Flow for acquisitions, net of cash	0	82	131

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

(in €m)	31 st December 2007	31 st December 2006	31 st December 2005
Total selling price	28	87	110
thereof received by cash and cash equivalents	28	87	110
Cash and cash equivalents included in the (disposed) subsidiaries	1	(1)	(21)
Cash Flow from disposals, net of cash	29	86	89

The aggregate cash flow from disposals, net of cash, in 2007 of €29 million mainly includes the contribution in kind of Naval Business (HagenU.K., businesses in Germany and in U.K.) to Atlas for a cash consideration of €28 million, whereas EADS increased its share in Atlas Elektronik from 40% to 49% in return. Additions and disposals of assets and liabilities relating to that transaction are included net in the following table. Further included in the cash flow from disposals, net of cash, are the sale of Alkan amounting to €10 million and Barfield for €(9) million.

The aggregate cash flow from disposals, net of cash, in 2006 of €86 million includes the sale of LFK GmbH and TDW GmbH amounting to €81 million and Seawolf of €2 million. 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 million 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.

(in €m)	31 st December 2007	31 st December 2006	31 st December 2005
Intangible assets; property, plant and equipment	17	(18)	(12)
Financial assets	(3)	(4)	0
Inventories	(5)	(89)	(34)
Trade receivables	(19)	(17)	(64)
Other assets	(2)	(22)	(34)
Cash and cash equivalents	1	(1)	(21)
Assets	(11)	(151)	(165)
Provisions	(7)	132	16
Trade liabilities	(5)	18	18
Financing liabilities	8	1	13
Other liabilities	9	52	45
Liabilities	5	203	92
Book value of net assets	(6)	52	(73)
Goodwill arising from disposals	(12)	0	(6)
Result from disposal of subsidiaries	(10)	(139)	(31)
Less own cash and cash equivalents of disposed subsidiaries	(1)	1	21
Cash Flow from disposals, net of cash	(29)	(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.

Although EADS is not a party, EADS is supporting the European Commission in litigation before the WTO. Following its unilateral withdrawal from the 1992 EU-U.S. Agreement on Trade in Large Civil Aircraft, the U.S. lodged a request on 6th October 2004 to initiate 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. On 31st May 2005, the U.S. and the EU each requested the establishment of a panel. At its meeting on 20th July 2005, the Dispute Settlement Body established the panels. Between November 2005 and the present, the parties filed numerous written submissions and attended several oral hearings in both cases. The parties continue to provide input in response to the WTO’s written questions in advance of issuance of the WTO panels’ reports. 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 their reports probably sometime in 2008.

The French Autorité des Marchés Financiers (the “AMF”) and the German Federal Financial Supervisory Authority (the “BaFin”) started in 2006 investigations for alleged breaches of market regulations and insider trading rules with respect to, in particular, the A380 delays in 2005 and 2006. However, the BaFin formally notified EADS on 3rd March 2007 that it had discontinued its investigations for suspected breaches of market regulations. Upon referral by the BaFin, German public prosecutors are currently conducting investigations regarding suspected insider offences against a few individuals. Furthermore, in Germany, several individual shareholders have filed civil actions against EADS to recover their alleged losses in connection with the disclosure of A380 programme delays. Following criminal complaints filed by a shareholders’ association and by an individual shareholder (including a civil claim for damages), French investigating judges are carrying out investigations on the same facts. On 3rd October 2006, the EADS Board of Directors decided to conduct an independent

assessment of individual discharge of duties in the situation that led to the A380 delays. This investigation extended to scrutinising potential responsibilities at the management level. It concluded that no individual failed to discharge his duties under appropriate legal standards and no personal liability of members of the top management of EADS and Airbus was identified.

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.

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 collateralized 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.

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 2008	179
Later than 2008 and not later than 2012	554
Later than 2012	472
Total	1,205
Of which commitments where the transaction has been sold to third parties	(699)
Total aircraft lease commitments where EADS bears the risk (not discounted)	506

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 22 c.) “Other provisions”.

Total aircraft lease commitments of €1,205 million as of 31st December 2007, arise from aircraft head-leases and are typically backed by corresponding sublease income from customers with an amount of €851 million. A large part of these lease commitments (€699 million as of 31st December 2007) 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 €286 million as of 31st December 2007, as part of the provision for aircraft financing risk (see Note 22 c.) "Other provisions").

As of 31st December 2007 and 2006, the total consolidated – **on and off balance sheet** – Commercial Aviation Sales Financing Exposure is as follows (Airbus 100% and ATR 50%):

(in €m)	31 st December 2007	31 st December 2006
Total gross exposure	1,226	1,694
Estimated fair value of collateral (aircraft)	(622)	(791)
Net exposure (fully provided for)	604	903

Details of provisions / accumulated impairments are as follows:

(in €m)	31 st December 2007	31 st December 2006
Accumulated impairment on operating leases (see Note 13 "Property, plant and equipment")	102	272
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 other long-term financial assets")	191	199
Provisions for aircraft financing risk (on balance sheet) (see Note 22 c.) "Other provisions")	25	25
Provisions for aircraft financing risk (commitment off balance sheet) (see Note 22 c.) "Other provisions")	286	407
Total provisions / accumulated impairments for sales financing exposure	604	903

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 31st December 2007, the nominal value of asset value guarantees provided to airlines, that do not exceed the 10% criteria, amounts to €880 million, excluding €513 million where the risk is considered to be remote. In many cases the risk is limited to a specific portion of the residual value of the aircraft. The 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 €501 million (see Note 22 c.) "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 2007 will generally not be exercisable prior to 2017, 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

Future nominal operating lease payments (for EADS as a lessee) for rental and lease agreements (not relating to aircraft sales financing) amount to €979 million as of 31st December 2007, and relate mainly to procurement operations (e.g., facility leases, car rentals). Maturities are as follows:

(in €m)	
Not later than 2008	132
Later than 2008 and not later than 2012	325
Later than 2012	522
Total	979

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, as explained below: i) market risks, especially foreign currency exchange rate risks and interest rate risks, ii) credit risk and iii) liquidity risk. EADS' overall financial risk management programme focuses on mitigating unpredictable financial market risks and their potential adverse effects on the Group's operational and financial performance. The Group uses derivative financial instruments and to a minor extent non-derivative financial liabilities to hedge certain risk exposures.

The financial risk management of EADS is generally carried out by the 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 with the Group's Divisions and Business Units.

Market Risk

Currency risk — Foreign exchange risk arises when future commercial transactions or firm commitments, recognised assets and liabilities and net investments in foreign operations are denominated in a currency that is not the entity's functional currency.

EADS manages a long-term hedge portfolio with a maturity of several years covering its net exposure to U.S. dollar sales, mainly from the activities of Airbus. This hedge portfolio

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.

covers to a large extent the Group's highly probable transactions.

Significant parts of EADS' revenues are denominated in U.S. dollar, 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-U.S. 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, some synthetic forwards and at Airbus to a minor extent non-derivative financial liabilities.

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 U.S. 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 expected flows to be hedged can cover up to 100% of the equivalent of the net U.S. dollar exposure at inception. For EADS, a forecasted transaction is regarded as highly probable if the future delivery is included in the 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 well as the robustness of the commercial cycle. For the non-aircraft business EADS hedges in- and outflows in foreign currencies from sales and purchase contracts following the same logic which are typically contracted in lower 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.

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, other money market instruments and bonds. For this portfolio, EADS holds on a regular basis an asset management committee which aims at limiting the interest rate risk on a fair value basis through a value-at-risk approach. EADS is mainly investing in short-term instruments in order to further minimise any interest risk in this portfolio. The remaining portion of securities is invested in short to mid term bonds. Any related interest rate hedges qualify for hedge accounting as either fair value hedges or cashflow hedges.

Price risk — EADS is to a small extent invested in equity securities mainly for operational reasons. Therefore, the Group assesses its exposure towards equity price risk as limited.

Sensitivities of Market Risks — The approach used to measure and control market risk exposure within EADS' financial instrument portfolio is amongst other key indicators the value-at-risk ("VaR"). The VaR of a portfolio is the estimated potential loss that will not be exceeded on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified confidence level. The VaR used by EADS is based upon a 95% confidence level and assumes a 5-day holding period. The VaR model used is mainly based on the so called "Monte-Carlo-Simulation" method. Deriving the statistical behaviour of the markets relevant for the portfolio out of market data from the previous two years and observed interdependencies between different markets and prices, the model generates a wide range of potential future scenarios for market price movements.

EADS VaR computation includes the Group's financial debt, short-term and long-term investments, foreign currency forwards, swaps and options, finance lease receivables and liabilities, foreign currency trade payables and receivables, including intra-group payables and receivables affecting Group profit and loss.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 5-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 95% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 5% statistical probability that losses could exceed the calculated VaR.
- The use of historical data as a basis for estimating the statistical behaviour of the relevant markets and finally determining the possible range of future outcomes out of this statistical behaviour may not always cover all possible scenarios, especially those of an exceptional nature.

The Group uses VaR amongst other key figures in order to determine the riskiness of its financial instrument portfolio and in order to optimise the risk-return ratio of its financial asset portfolio. Further, the Group's investment policy defines for P&L and OCI certain limits on total risk for the portfolio of cash, cash equivalents and securities. The total VaR as well as the different risk-factor specific VaR figures of this portfolio are measured and serve amongst other measures as a basis for the decisions of the asset management committee.

A summary of the VaR position of EADS' financial instruments portfolio at 31st December 2007 and 31st December 2006 is as follows:

31st December 2007 (in €m)	Total VaR	Equity price VaR	Currency VaR	Interest rate VaR
FX hedges for forecast transactions or firm commitments	360	-	367	104
Financing liabilities, cash, cash equivalents, securities and related hedges	41	8	50	27
Finance lease receivables and liabilities, foreign currency trade payables and receivables	38	-	11	35
Correlation effect	(48)	-	(16)	(30)
All financial instruments	391	8	412	136
31st December 2006 (in €m)				
FX hedges for forecast transactions or firm commitments	412	-	429	54
Financing liabilities, cash, cash equivalents, securities and related hedges	20	6	29	12
Finance lease receivables and liabilities, foreign currency trade payables and receivables	32	-	9	29
Correlation effect	(98)	-	(46)	(30)
All financial instruments	366	6	421	65

EADS uses its derivative instruments almost entirely as well as some of its non-derivative financial liabilities for hedging purposes. As such, the respective market risks of these hedging instruments are – depending on the hedges actual effectiveness – offset by corresponding opposite market risks of the underlying forecast transactions, assets or liabilities. Under IFRS 7 the underlying forecast transactions do not qualify as financial instruments and are therefore not included in the tables shown above. The VaR of the FX hedging portfolio in the amount of €360 million (2006: €412 million) cannot be considered as a risk indicator for the Group in the economic sense.

Further, EADS also measures VaR of the Group-internal transaction risk arising on Group entities contracting in a currency different from its functional currency affecting Group profit and loss. However, these currency risks arise purely EADS internally and are in economic terms 100% compensated by the corresponding currency fluctuations recognised in a separate component of equity when translating the foreign entity into EADS functional currency. At 31st December 2007 the related total VaR amounted to €12 million.

Liquidity Risk

The Group's policy is to maintain sufficient cash and cash equivalents at any time to meet its present and future commitments as they fall due. EADS manages its liquidity by holding adequate volumes of liquid assets and maintains a committed credit facility (€3.0 billion as of 31st December 2007) in addition to the cash inflow generated by its operating business. The liquid assets typically consist of cash and cash equivalents. In addition, the Group maintains a set of other funding sources. Depending on its cash needs and market conditions, EADS may issue bonds, notes and commercial papers. Adverse changes in the capital markets – for example caused by the current uncertain situation in the U.S. mortgage market – could increase the Group's funding costs and limit its financial flexibility.

Further, the management of the vast majority of the Group's liquidity exposure is centralised by a daily cash concentration process. This process enables EADS to manage its liquidity surplus as well as its liquidity requirements according to the actual needs of its subsidiaries. In addition, Management monitors the Group's liquidity reserve as well as the expected cash flows from its operations based on a quarterly rolling cash forecast.

(in €m)	Carrying amount	Contractual cash flows	< 1 year	1 year – 2 years	2 years – 3 years	3 years – 4 years	4 years – 5 years	More than 5 years
31st December 2007								
Non derivative financial liabilities	(14,524)	(15,620)	(10,591)	(831)	(1,347)	(288)	(202)	(2,361)
Derivative financial liabilities	(294)	(384)	(135)	(131)	30	0	0	(148)
Total	(14,818)	(16,004)	(10,726)	(962)	(1,317)	(288)	(202)	(2,509)
31st December 2006								
Non derivative financial liabilities	(14,194)	(15,248)	(10,438)	(659)	(527)	(1,318)	(272)	(2,034)
Derivative financial liabilities	(231)	(290)	(166)	(48)	(5)	31	(2)	(100)
Total	(14,425)	(15,538)	(10,604)	(707)	(532)	(1,287)	(274)	(2,134)

The above table analyses EADS financial liabilities by relevant maturity groups based on the period they are remaining on EADS balance sheet to the contractual maturity date.

The amounts disclosed are the contractual undiscounted cash flows, comprising all outflows of a liability such as repayments and eventual interest payments.

Non-derivative financial liabilities comprise financing liabilities at amortised cost and finance lease liabilities as presented in the tables of Note 30b). Due to their specific nature, namely their risk-sharing features and uncertainty about the repayment dates, the European Governments refundable advances are not included in the above mentioned table with an amount of €5,315 million (2006: €5,418 million).

Derivative financial liabilities are presented with their market value.

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.

As far as central treasury activities are concerned, credit risk resulting from financial instruments is managed on Group level. Counterparts for transactions on cash, cash equivalents and securities as well as for derivative transactions are limited to high credit quality financial institutions, corporates or sovereigns. 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. Further, EADS constantly aims for maintaining a certain level of diversification in its portfolio between individual counterparts as well as between financial institutions, corporates and sovereigns in order to avoid an increased concentration of credit risk on only a few counterparts. The Group is monitoring the performance of the individual financial instruments and the impact of the credit markets on their performance. EADS has procedures in place that allow to hedge, to divest from or to restructure financial instruments having undergone a downgrade of the counterparts' credit rating or showing an unsatisfactory performance. These measures aim to protect EADS to a certain extent against credit risks from individual counterparts. Nevertheless, a potential negative impact resulting from a market-driven increase of systematic credit risks cannot be excluded.

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.

The carrying amount of financial assets represents the maximum credit exposure. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rating (if available) or internal assessment of customers' (e.g. airlines') creditworthiness.

The maximum exposure of the current portion of other long-term financial assets, trade receivables, receivables from related companies and financial assets included in current other assets to credit risk at balance sheet date is the following:

(in €m)	2007	2006
Receivables, neither past due nor impaired	4,353	4,176
Not past due due to negotiations and not impaired	43	4
Receivables impaired individually	16	11
Receivables not impaired and past due ≤ 3 months	728	623
Receivables not impaired and past due > 3 and ≤ 6 months	95	114
Receivables not impaired and past due > 6 and ≤ 9 months	55	90
Receivables not impaired and past due > 9 and ≤ 12 months	108	125
Receivables not impaired and past due > 12 months	347	493
Total	5,745	5,636

b) Carrying Amounts and Fair Values 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 independent 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 tables present the carrying amounts and fair values of financial instruments according to IAS 39 measurement categories as of 31st December 2007 and 2006 respectively:

31 st December 2007 (in €m)	Fair Value through profit or loss		Fair Value for hedge relations	Available for Sale		Loans and Receivables and Financial liabilities at amortised cost		Other ⁽⁴⁾	Financial Instruments Total	
	Held for trading	Designated	Fair value	Book value	Fair Value	Amortised Cost	Fair Value		Book Value	Fair Value
Assets										
Other investments and other long-term financial assets										
– thereof at amortised cost	-	-	-	-	-	582	582	472	1,054	1,054
– thereof at cost	-	-	-	293	-(¹)	-	-	-	293	-(¹)
– thereof Fair value via OCI	-	-	-	206	206	-	-	-	206	206
Current portion of other long-term financial assets	-	-	-	-	-	60	60	106	166	166
Non-current and current other assets ⁽²⁾	201	-	5,194	-	-	976	976	-	6,371	6,371
Trade receivables	-	-	-	-	-	4,639	4,639	-	4,639	4,639
Non-current and current securities	-	285	-	4,004	4,004	-	-	-	4,289	4,289
Cash and Cash Equivalents	-	503	-	5,507	5,507	1,539	1,539	-	7,549	7,549
Total	201	788	5,194	10,010	9,717	7,796	7,796	578	24,567	24,274
Liabilities										
Long-term and short-term financing liabilities	-	-	-	-	-	(4,624)	(4,698)	(190)	(4,814)	(4,888)
Non-current other and current other liabilities ⁽³⁾	(91)	-	(1,211)	-	-	(6,619)	(6,619) ⁽⁵⁾	-	(7,921)	(7,921)
Trade liabilities	-	-	-	-	-	(7,398)	(7,398)	-	(7,398)	(7,398)
Total	(91)	-	(1,211)	-	-	(18,641)	(18,715)	(190)	(20,133)	(20,207)

(1) Fair value is not reliably measurable.

(2) This does not include non-current prepaid expenses (€808 million), current prepaid expenses (€401 million), non-current capitalised settlement payments to German government (€166 million) and its current portion (€33 million, included in current other assets), value added tax claims (€627 million) as well as others (€342 million, thereof €59 million included in non-current other assets and €283 million in current other assets), which do not qualify for financial instruments.

(3) This does not include non-current customer advance payments (€8,420 million) and current customer advance payments (€16,214 million), tax liabilities (€557 million) as well as others (€698 million, thereof €34 million included in non-current other liabilities and €664 million in current other liabilities), which do not qualify for financial instruments.

(4) This includes finance lease receivables and finance lease liabilities, which are not assigned to a measurement category according to IAS 39. The carrying amounts of these receivables/payables approximate their fair values.

(5) The European Governments refundable advances of €5,315 million 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.

31 st December 2006 (in €m)	Fair Value through profit or loss		Fair Value for hedge relations	Available for Sale		Loans and Receivables and Financial liabilities at amortised cost		Other ⁽⁴⁾	Financial Instrument Total	
	Held for trading	Designated	Fair value	Book value	Fair Value	Amortised Cost	Fair Value		Book Value	Fair Value
Assets										
Other investments and other long-term financial assets										
– thereof at amortised cost	-	-	-	-	-	460	460	578	1,038	1,038
– thereof at cost	-	-	-	345	-(1)	-	-	-	345	-(1)
– thereof Fair value via OCI				283	283				283	283
Current portion of other long-term financial assets	-	-	-	-	-	51	51	52	103	103
Non-current and current other assets ⁽²⁾	185	-	5,082	-	-	686	686	-	5,953	5,953
Trade receivables	-	-	-	-	-	4,852	4,852	-	4,852	4,852
Non-current and current securities	-	-	-	1,843	1,843	-	-	-	1,843	1,843
Cash and Cash Equivalents	-	3,476	-	2,810	2,810	1,857	1,857	-	8,143	8,143
Total	185	3,476	5,082	5,281	4,936	7,906	7,906	630	22,560	22,215
Liabilities										
Long-term and short-term financing liabilities	-	-	-	-	-	(5,482)	(5,634)	(275)	(5,757)	(5,909)
Non-current other and current other liabilities ⁽³⁾	(35)	-	(196)	-	-	(6,350)	(6,350) ⁽⁵⁾	-	(6,581)	(6,581)
Trade liabilities	-	-	-	-	-	(7,461)	(7,461)	-	(7,461)	(7,461)
Total	(35)	-	(196)	-	-	(19,293)	(19,445)	(275)	(19,799)	(19,951)

(1) Fair value is not reliably measurable.

(2) This does not include non-current prepaid expenses (€683 million), current prepaid expenses (€384 million), non-current capitalised settlement payments to German Government (€198 million) and its current portion (€29 million, included in current other assets), value added tax claims (€595 million) as well as others (€432 million, thereof €80 million included in non-current other assets and €352 million in current other assets) which do not qualify for financial instruments.

(3) This does not include non-current customer advance payments (€6,308 million) and current customer advance payments (€14,172 million), tax liabilities (€600 million) as well as others (€1,300 million, thereof €222 million included in non-current other liabilities and €1,078 million in current other liabilities) which do not qualify for financial instruments.

(4) This includes finance lease receivables and finance lease liabilities, which are not assigned to a measurement category according to IAS 39. The carrying amounts of these receivables/payables approximate their fair values.

(5) The European Governments refundable advances of €5,418 million 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.

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 31st December 2007 and 2006, which are not necessarily indicative of the amounts that the Company would record upon further disposal / termination of the financial instruments. Unquoted other investments are measured at cost as their fair value is not reliably determinable.

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.

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 31st December 2007 and 2006.

The fair value of **financing liabilities** as of 31st December 2007 has been estimated including all future interest payments. It 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 following types of **financial assets** held at 31st December 2007 and 2006 respectively are recognised at fair value through profit or loss:

(in €m)	Nominal amount at initial recognition as of 31 st December 2007	Fair value as of 31 st December 2007	Nominal amount at initial recognition as of 31 st December 2006	Fair value as of 31 st December 2006
Designated at fair value through profit or loss at recognition:				
– Money Market Funds (accumulating)	504	503	3,418	3,459
– Bond Funds	-	-	18	17
– Foreign currency Funds of Hedge Funds	234	234	-	-
– Uncapped Structured Interest Rate Notes	50	51	-	-
Total	788	788	3,436	3,476

The unrealised gain recognised in finance income amounts to €0 million (in 2006: €37 million). The accumulating Money Market Funds have been designated at fair value through profit or loss as their portfolio is managed and their performance is measured on a fair value basis.

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 €2,941 million (in 2006: €1,598 million).

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

Investments in foreign currency Funds of Hedge Funds have been designated at fair value through profit and loss to significantly reduce the inconsistency regarding the recognition

of foreign exchange gains and losses. The funds represent equity investments and would otherwise be accounted as “available for sale” financial assets with unrealised gains and losses to be recognised in AOCI. As these equity funds qualify as non monetary items under IAS 21, the unrecognised foreign exchange gains and losses would also be recognised within AOCI. This would cause a mismatch with the recognition of unrealised gains and losses of associated foreign currency derivatives in profit or loss. These foreign currency derivatives have been purchased together with the equity investments and have a similar notional amount.

EADS also invests in uncapped Structured Interest Rate Notes – hybrid instruments combining a zero coupon bond and an embedded interest derivative. As the latter had to be separated from the host contract EADS opted to designate the entire hybrid instrument at fair value through profit or loss.

c) Notional Amounts of Derivative Financial Instruments

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 31 st December 2007 (in €m)	Remaining period								Total
	2008	2009	2010	2011	2012	2013	2014	2015	
Foreign Exchange Contracts:									
Net forward sales (purchase) contracts	10,209	8,712	7,479	3,468	1,272	450	(3)	0	31,587
Structured USD forward:									
Purchased USD call options	162	1,422	537	513	214	0	0	0	2,848
Purchased USD put options	162	1,422	537	513	214	0	0	0	2,848
Written USD call options	162	1,422	537	513	214	0	0	0	2,848
FX swap contracts	1,838	14	0	0	34	0	189	0	2,075

Year ended 31 st December 2006 (in €m)	Remaining period								Total
	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

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

Year ended 31 st December 2007 (in €m)	Remaining period								Total
	2008	2009	2010	2011	2012	2013-17	2018	2019	
Interest Rate Contracts	225	536	1,655	122	90	0	1,455	1,589	5,672

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

d) Derivative Financial Instruments and Hedge Accounting Disclosure

The following interest rate curves are used in the determination of the fair value in respect of the derivative financial instruments as of 31st December 2007 and 2006:

31st December 2007			
Interest rate in %	EUR	USD	GBP
6 months	4.58	4.61	5.91
1 year	4.67	4.25	5.76
5 years	4.56	4.16	5.16
10 years	4.72	4.65	5.08

31st December 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

The development of the foreign exchange rate hedging instruments recognised in AOCI is as of 31st December 2007 and 2006 as follows:

(in €m)	Equity attributable to equity holders of the parent	Minority interests	Total
1st January 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
31st December 2006/1st January 2007	3,189	1	3,190
Unrealised gains and losses from valuations, net of tax	1,364	1	1,365
Transferred to profit or loss for the period, net of tax	(1,002)	0	(1,002)
Changes in fair values of hedging instruments recorded in AOCI, net of tax	362	1	363
31st December 2007	3,551	2	3,553

Corresponding with its carrying amounts, the fair values of each type of derivative financial instruments is as follows:

(in €m)	31 st December 2007		31 st December 2006	
	Assets	Liabilities	Assets	Liabilities
Foreign currency contracts – Cash Flow Hedges	5,192	(124)	5,067	(66)
Foreign currency contracts – not designated in a hedge relationship	154	(48)	123	(1)
Interest rate contracts – Cash Flow Hedges	2	(12)	0	(86)
Interest rate contracts – Fair Value Hedges	0	(67)	15	(44)
Interest rate contracts – not designated in a hedging relationship	27	(43)	37	(34)
Embedded foreign currency derivatives	20	0	25	0
Total	5,395	(294)	5,267	(231)

At 31st December 2007, the Group has interest swap agreements in place with notional amounts totalling €1,500 million (as at 31st December 2006: €1,500 million). The swaps are used to hedge the exposure to changes in the fair value of its EMTN bonds (see Note 23 “Financing liabilities”). The fair value loss on the interest rate swaps of €23 million (2006: €43 million) has been recognised in financial result and offset against an equal gain on its EMTN bonds.

Derivatives which are not designated for hedge accounting are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability

if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months in case of serial production. In case of long term production, a hedging derivative is classified as non-current when the hedged items’ remaining maturity is beyond EADS’ normal operating cycle; and as a current asset or liability when the remaining maturity of the hedged item is in EADS’ normal operating cycle.

No ineffective gain or loss arising from hedging relationships has been recorded in profit and loss.

e) Net Gains or Losses

EADS net gains or losses recognised in profit or loss in 2007 and 2006 respectively were as follows:

(in €m)	2007	2006
Financial assets or financial liabilities at fair value through profit and loss:		
– Held for trading	(307)	(77)
– Designated on initial recognition	154	114
Available-for-sale-financial assets:		
– Result before taxes removed from OCI and recognised in profit and loss	48	0
Loans and receivables	(127)	(49)
Financial liabilities measured at amortised cost	77	123

Interest income from financial assets or financial liabilities through profit and loss is included in net gains and losses.

Net gains and losses of available-for-sale financial assets mainly comprise gains on derecognition.

Net gains and losses of loans and receivables contain among others results from currency adjustments from foreign operations and impairment losses.

The following net gains and losses have been recognised directly in equity in 2007 and 2006:

(in €m)	2007	2006
Available-for-sale-financial assets:		
– Unrealised gains or losses recognised directly in OCI	(4)	20

f) Total interest income and total interest expenses

Total interest income for financial assets and total interest expense for financial liabilities which are not measured at fair value through profit or loss are calculated by using the effective interest rate method:

(in €m)	2007	2006
Total interest income on financial asset	347	378
Total interest expense on financing liabilities	(701)	(575)

g) Impairment losses

The following impairment losses on financial assets are recognised in profit and loss in 2007 and 2006 respectively:

(in €m)	2007	2006
Available-for-sale financial assets ⁽¹⁾	(13)	(4)
Loans and receivables	(120)	(94)
Other ⁽²⁾	(24)	(11)
Total	(157)	(109)

(1) Concerns financial assets valued at cost.

(2) Others include finance lease receivables.

31. Share-Based Payment

a) Long Term Incentive Plans (LTIP)

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 2007, compensation expense for Stock Option Plans was recognised for an amount of €39 million (in 2006: €40 million). For the 613,519 options exercised during the year 2007, the average share price at the date of exercise has been €23.88.

At its 7th December 2007 meeting, the Board of Directors of the Company approved the granting of performance units and restricted units in the Company. The grant of so called "units" will not physically be settled in shares but represents a cash settled plan in accordance with IFRS 2.

The fair value of units granted per vesting date is as follows:

In € (per unit granted)	FV of restricted units to be settled in cash	FV of performance units to be settled in cash
May 2011	21.03	21.03
November 2011	20.93	20.93
May 2012	20.84	20.84
November 2012	20.74	20.74

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

INPUT PARAMETERS FOR THE BLACK SCHOLES OPTION PRICING MODEL

	LTIP 2006	LTIP 2005
Share price (€)	25.34	32.79
Exercise price (€)	25.65 ⁽¹⁾	33.91
Risk-free interest rate (% ⁽²⁾)	4.13	3.24
Expected volatility (%)	30.7	24.8
Estimated Life (years)	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 zero coupon yield curve that reflects the respective life (years) of the options.

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 measurement purposes performance criteria are considered to be met.

The estimated option life of 5.5 years (in 2006 and 2005) was based on historical experience and incorporated the effect of expected early exercises.

The lifetime of the performance and restricted units (2007) is contractually fixed (see table below). The measurement is based on the share price as of the balance sheet date (€21.83 as of 31st December 2007) from which the present value of the expected dividend payments is deducted.

The principal characteristics of the options, performance and restricted shares as well as performance and restricted units as at 31st December 2007 are summarised in the various tables below:

	First tranche	Second tranche
Date of shareholders' meeting	24 th May 2000	24 th May 2000
Date of Board of Directors meeting (grant date)	26 th May 2000	20 th October 2000
Number of options granted	5,324,884	240,000
Number of options outstanding	1,671,380	32,000
Total number of eligible employees	850	34
Exercise date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules – see "Part 2/3.1.3 Governing Law – Dutch Regulations").	
Expiry date	8 th July 2010	8 th July 2010
Conversion right	One option for one share	One option for one share
Vested	100%	100%
Exercise price	€20.90	€20.90
Exercise price conditions	110% of fair market value of the shares at the date of grant	
Number of exercised options	2,892,020	188,000

	Third tranche	Fourth tranche
Date of shareholders' meeting	10 th May 2001	10 th May 2001
Date of Board of Directors meeting (grant date)	12 th July 2001	9 th August 2002
Number of options granted	8,524,250	7,276,700
Number of options outstanding	3,773,169	2,706,434
Total number of eligible employees	1,650	1,562
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	12 th July 2011	8 th August 2012
Conversion right	One option for one share	
Vested	100%	100%
Exercise price	€24.66	€16.96
Exercise price conditions	110% of fair market value of the shares at the date of grant	
Number of exercised options	3,492,831	4,305,066

	Fifth tranche	Sixth tranche
Date of shareholders' meeting	6 th May 2003	6 th May 2003
Date of Board of Directors meeting (grant date)	10 th October 2003	8 th October 2004
Number of options granted	7,563,980	7,777,280
Number of options outstanding	4,818,873	6,240,986 ⁽¹⁾
Total number of eligible employees	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").	
Expiry date	9 th October 2013	7 th October 2014
Conversion right	One option for one share	
Vested	100%	100% ⁽¹⁾
Exercise price	€15.65	€24.32
Exercise price conditions	110% of fair market value of the shares at the date of grant	
Number of exercised options	2,503,423	2,400

(1) As regards to the sixth tranche, vesting of part of the options granted to EADS top Executives was subject to performance conditions. As a result, part of these conditional options have not vested and were therefore forfeited during the year 2007.

	Seventh tranche
Date of shareholders' meeting	11 th May 2005
Date of Board of Directors meeting (grant date)	9 th December 2005
Number of options granted	7,981,760
Number of options outstanding	7,764,940
Total number of eligible beneficiaries	1,608
Exercise date	50% of options may be exercised after a period of two years from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules – see "Part 2/3.1.3 Governing Law – Dutch Regulations"). As regards to the seventh tranche, part of the options granted to the top EADS Executives are performance related.
Expiry date	8 th December 2015
Conversion right	One option for one share
Vested	50%
Exercise price	€33.91
Exercise price conditions	110% of fair market value of the shares at the date of grant
Number of exercised options	0

		Eighth tranche
Date of shareholders' meeting		4 th May 2006
Date of Board of Directors meeting (grant date)		18 th December 2006
		Stock option plan
Number of options granted		1,747,500
Number of options outstanding		1,742,000
Total number of eligible beneficiaries		221
Date from which the options may be exercised	50% of options may be exercised after a period of two years from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules – see "Part 2/3.1.3 Governing Law – Dutch Regulations")	
Date of expiration		16 th December 2016
Conversion right		One option for one share
Vested		0%
Exercise price		€25.65
Exercise price conditions		110% of fair market value of the shares at the date of grant
Number of exercised options		0
		Performance and restricted shares plan
		Performance shares
		Restricted shares
Number of shares granted		1,344,625
Number of shares outstanding		1,328,375
Total number of eligible beneficiaries		1,637
Vesting date	The performance and restricted shares will vest if the participant is still employed by an EADS company and, in the case of performance shares, upon achievement of mid-term business performance. The vesting period will end at the date of publication of the 2009 annual results, expected in March 2010.	
Number of vested shares	875	0
		Ninth tranche
Date of Board of Directors meeting (grant date)		7 th December 2007
		Performance and restricted unit plan
		Performance units
		Restricted units
Number of units granted		1,693,940
Total number of eligible beneficiaries		1,617
Vesting dates	The performance and restricted units will vest if the participant is still employed by an EADS company at the respective vesting dates and, in the case of performance units, upon achievement of mid-term business performance. Vesting schedule is made up of 4 payments over 2 years: <ul style="list-style-type: none"> • 25% expected in May 2011; • 25% expected in November 2011; • 25% expected in May 2012; • 25% expected in November 2012. 	

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

First & Second Tranche	Number of Options				
	Options granted	Balance at 1 st January	Exercised	Forfeited	Balance at 31 st December
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
2007	-	1,775,489	(35,109)	(37,000)	1,703,380

Third Tranche	Number of Options				
	Options granted	Balance at 1 st January	Exercised	Forfeited	Balance at 31 st December
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
2007	-	3,856,519	(2,000)	(81,350)	3,773,169

Fourth Tranche	Number of Options				
	Options granted	Balance at 1 st January	Exercised	Forfeited	Balance at 31 st December
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
2007	-	2,911,916	(189,532)	(15,950)	2,706,434

Fifth Tranche	Number of Options				
	Options granted	Balance at 1 st January	Exercised	Forfeited	Balance at 31 st December
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
2007	-	5,229,965	(386,878)	(24,214)	4,818,873

Sixth Tranche	Number of Options				
	Options granted	Balance at 1 st January	Exercised	Forfeited	Balance at 31 st December
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
2007	-	7,599,700	-	(1,358,714)	6,240,986

Seventh Tranche	Number of Options				
	Options granted	Balance at 1 st January	Exercised	Forfeited	Balance at 31 st December
2005	7,981,760	-	-	-	7,981,760
2006	-	7,981,760	-	(74,160)	7,907,600
2007	-	7,907,600	-	(142,660)	7,764,940

Eighth Tranche	Number of Options				
	Options granted	Balance at 1 st January	Exercised	Forfeited	Balance at 31 st December
2006	1,747,500	-	-	-	1,747,500
2007	-	1,747,500	-	(5,500)	1,742,000

Total options for all Tranches	46,436,354	-	(13,383,740)	(4,302,832)	28,749,782
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Performance/restricted shares plan 2006	Number of Shares				
	Shares granted	Balance at 1 st January	Vested	Forfeited	Balance at 31 st December
Performance shares in 2006	1,344,625	-	-	-	1,344,625
Performance shares in 2007	-	1,344,625	(875)	(15,375)	1,328,375
Restricted shares in 2006	391,300	-	-	-	391,300
Restricted shares in 2007	-	391,300	-	(4,550)	386,750
Total shares	1,735,925	1,735,925	(875)	(19,925)	1,715,125

Ninth Tranche	Number of Units				
	Units granted	Balance at 1 st January	Vested	Forfeited	Balance at 31 st December
Performance units in 2007	1,693,940	-	-	-	1,693,940
Restricted units in 2007	506,060	-	-	-	506,060
Total units	2,200,000	-	-	-	2,200,000

b) Employee Stock Ownership Plan (ESOP)

In 2007, the Board of Directors approved an additional ESOP following six ESOPs established in 2005, 2004, 2003, 2002, 2001 and in 2000. For the 2007 ESOP, eligible employees were able to purchase a maximum of 500 shares per employee of previously unissued shares. The offer was broken down into two tranches which were available for all employees to choose. The subscription price for tranche A was €17.16. The subscription price for tranche B was the highest of the subscription price for tranche A or 80% of the average opening market prices for EADS shares on the Paris stock exchange over the twenty trading days preceding 14th May 2007, resulting in a subscription price of €19.62.

During a lockup period of at least one year under tranche A or five years under tranche B, employees are restricted from selling the shares, but have the right to receive all dividends paid. Employees who subscribed to tranche A have in addition the ability to vote at the annual shareholder meetings. EADS issued and sold 2,037,835 ordinary shares with a nominal value of €1.00 under both tranches. Compensation expense of €9 million was recognised in connection with the ESOP 2007. In 2006, no ESOP was issued by the Company. Consequently, no compensation expense was recognised in 2006 in connection with the ESOP programme.

32. Related Party Transactions

Related parties — The Group has entered into various transactions with related companies in 2007 and 2006 that have all been carried out in the normal course of business. As is the Group's policy, related party transactions have to be carried out at arm's length. Transactions with related parties include the French State, Daimler AG, 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 programmes like Tiger, M51 / M45 ballistic missiles and SCALP naval cruise missiles. The transactions with the Spanish State include mainly sales from the MTAD and Defence & Security divisions for programmes like the A400M and Eurofighter.

The transactions with the joint ventures mainly concern the Eurofighter and A400M programmes.

The following table discloses the related party transactions on a full EADS' share as of 31st December 2007:

(in €m)	Sales of goods and services and other income in 2007	Purchases of goods and services and other expense in 2007	Receivables due as of 31 st December 2007	Payables due as of 31 st December 2007	Other liabilities/Loans received as of 31 st December 2007
French State	1,587	17	882	0	2,087
Spanish State (SEPI)	316	0	122	0	352
Daimler AG	4	12	2	4	0
Lagardère group	2	0	0	2	14
Total transactions with shareholder	1,909	29	1,006	6	2,453
Total transactions with joint ventures	1,638	28	371	42	616
Total transactions with associates	687	20	317	3	0

In 2007, Lagardère and the French State repaid to EADS the dividends they received related to 2006 for an amount of €29 million as an interest free loan.

The following table discloses the related party transactions on a full EADS' share as of 31st December 2006:

(in €m)	Sales of goods and services and other income in 2006	Purchases of goods and services and other expense in 2006	Receivables due as of 31 st December 2006	Payables due as of 31 st December 2006	Other liabilities/Loans received as of 31 st December 2006
French State	2,292	28	857	19	1,968
Spanish State (SEPI)	394	0	120	0	408
Daimler AG	5	5	5	3	0
Lagardère group	0	0	0	0	0
Total transactions with shareholder	2,691	33	982	22	2,376
Total transactions with joint ventures	1,088	30	194	19	359
Total transactions with associates	639	9	247	4	0

Remuneration — The annual remuneration and related compensation costs of all of key management personnel, i.e. Non Executive Board Members, Executive Board Members and Members of the Executive Committee, can be summarised as follows:

2007 (in €m)	Compensation expense	Pension	
		Defined benefit obligation ⁽¹⁾	Pension expense ⁽²⁾
Non Executive Board Members ⁽³⁾	0.8	-	-
Executive Board Member ⁽⁴⁾	2.1	0.8	0.6
Other Executive Committee Members ⁽⁵⁾	11.7	15.5	1.7

(1) Amount of the net pension defined benefit obligation.

(2) Aggregated amount of current service and interest costs related to the defined benefit obligation accounted for during fiscal year 2007.

(3) Non Executive Board Members in office as at 31st December 2007.

(4) The Chief Executive Officer was the sole Executive Board Member in office as at 31st December 2007.

(5) Including former Executive Board Members who ceased their membership with the Board in 2007 but who were still Executive Committee Members as at 31st December 2007; excluding former Executive Committee Members who were no longer in office as at 31st December 2007.

2006 (in €m)	Compensation expense	Pension	
		Defined benefit obligation ⁽¹⁾	Pension expense ⁽²⁾
Non Executive Board Members ⁽³⁾	0.8	-	-
Executive Board Members ⁽⁴⁾	5.3	11.5	1.2
Other Executive Committee Members ⁽⁵⁾	5.8	6.4	0.7

(1) Amount of the net pension defined benefit obligation.

(2) Aggregated amount of current service and interest costs related to the defined benefit obligation accounted for during fiscal year 2006.

(3) Non Executive Board Members in office as at 31st December 2006.

(4) Executive Board Members in office as at 31st December 2006.

(5) Excluding former Executive Committee Members who were no longer in office as at 31st December 2006.

Additionally, performance units granted in 2007 to the Chief Executive Officer and to the other Executive Committee Members represented 259,900 units.

The amounts detailed above do neither comprise the termination package nor the estimated cost of Long Term Incentives granted to Executive Committee Members.

For more information in respect of remuneration of Directors, see "Notes to the Company Financial Statements – Note 11: Remuneration".

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

The Executive Committee members are furthermore entitled to a termination package when the parting results from a decision by 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 Board has decided to reduce the maximum termination indemnity from 24 months to 18 months of annual total target salary.

This new rule is applicable to the Executive Committee members from the renewal of their employment contracts.

The indemnity could be reduced pro rata or would even not be applicable depending on age and date of retirement.

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 31 st December 2006	Book value 31 st December 2006	Disposals Historical cost	Depreciation Amortisation	Disposals Accumulated depreciation	Accumulated depreciation 31 st December 2007	Net at 31 st December 2007
Book value of Investment Property	271	(134)	137	(58)	(10)	27	(117)	96

As of 31st December 2007, the fair value of the Group's investment property amounts to €100 million (in 2006: €154 million). Related rental income in 2007 is €13 million

(in 2006: €15 million) with direct operating expenses amounting to €5 million (in 2006: €7 million).

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 proportional share of the assets, liabilities, income and expenses of the significant joint ventures (MBDA, Atlas and ATR) in aggregate:

(in €m)	2007 ⁽¹⁾	2006 ⁽¹⁾
Non current assets	693	830
Current assets	3,004	3,503
Non current liabilities	466	612
Current liabilities	2,670	3,245
Revenues	1,729	2,006
Profit for the period	121	170

(1) The percentage of the proportional consolidation of MBDA has changed from 50% to 37.5% as of 1st January 2007.

35. Earnings per Share

Basic earnings per share — Basic earnings per share are calculated by dividing profit (loss) for the period attributable to equity holders of the parent (Net income (loss)) by the

weighted average number of issued ordinary shares during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

	2007	2006	2005
Profit (loss) for the period attributable to equity holders of the parent (Net income (loss))	€(446) M	€99 M	€1,676 M
Weighted average number of ordinary shares	803,128,221	800,185,164	794,734,220
Basic earnings (losses) per share	€(0.56)	€0.12	€2.11

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 2007, the average share price of EADS exceeded the exercise price of the stock options

under the 1st, 2nd, 4th and 5th stock option plan (in 2006 and 2005: 1st, 2nd, 3rd, 4th, 5th, and 6th stock option plans). Hence, 2,420,180 shares (2006: 4,130,499 shares; 2005: 5,482,133 shares) were considered in the calculation of diluted earnings per share.

	2007	2006	2005
Profit (loss) for the period attributable to equity holders of the parent (Net income (loss))	€(446) M	€99 M	€1,676 M
Weighted average number of ordinary shares (diluted)	805,548,401	804,315,663	800,216,353
Diluted earnings (losses) per share	€(0.55)	€0.12	€2.09

36. Number of Employees

The number of employees at 31st December 2007 is 116,493 as compared to 116,805 at 31st December 2006.

37. Events after the Balance Sheet Date

On 29th February 2008, the U.S. Air Force awarded Northrop Grumman Corp., U.S.A. a contract for the development and procurement of up to 179 tanker aircraft for approximately \$40 billion. This dollar amount includes both priced options for 80 aircraft and unpriced options for another 99 as well as estimated support costs (currently unpriced). The initial contract for the newly named KC-45A, is for the system design and development of four test aircraft for \$1.5 billion. The Air Force will be funding this initial tranche over the next three years. EADS North America Inc., U.S.A. is the partner to Northrop Grumman Corp., U.S.A. on the new tanker contract, with responsibility for assembling airframes and providing completed flight-qualified aircraft and refueling sub-systems. The Military Transport Aircraft Division (MTAD) is responsible within the EADS Group for all military derivative programmes based on Airbus platforms, including tankers. Starting in 2011, production of KC-45A airframes will be performed at Airbus' new Mobile, Alabama aerospace centre which will house the Airbus KC-45A final assembly facility.

In addition, EADS Group and Airbus intend to transfer the final assembly of Airbus A330 civilian freighters there. Unsuccessful competitor Boeing announced its imminent intention to file a protest with the General Accounting Office, whose decision would have to be issued within 100 days of the filing as required by law.

With regard to the plan to sell the Airbus sites in Méaulte, St. Nazaire Ville, Nordenham, Varel, Laupheim and Filton and the EADS site in Augsburg negotiations with selected preferred bidders (Latécoère in France, GKN in the U.K. and MT Aerospace in Germany) are ongoing. So far, binding agreements have not been reached. Furthermore, the potential divestment of the sites is still subject to EADS' Board of Directors decision.

These Consolidated Financial Statements have been authorised for issuance by the Board of Directors on 10th March 2008.

Appendix "Information on Principal Investments" – Consolidation Scope

	2007	%	2006	%	Company	Head office
Airbus						
	F	100.00	F	100.00	AD Grundstückgesellschaft GmbH	Pöcking (Germany)
	F	100.00	F	100.00	AFS Cayman 11 Limited	Cayman Isle
			F	100.00	AFS Cayman Aerospace Limited	Ireland
			F	100.00	AI Leasing Inc.	USA
			F	100.00	AI Participations S.A.R.L.	Blagnac (France)
	F	100.00	F	100.00	AIFS (Cayman) Ltd.	Cayman Isle
	F	100.00	F	100.00	AIFS Cayman Liquidity Ltd.	Cayman Isle
	F	100.00	F	100.00	AIFS Leasing Company Limited	Ireland
	F	100.00	F	100.00	Airbus A320 Financing Limited	Ireland
	F	100.00	F	100.00	Airbus China Limited	Hong Kong
	F	100.00	F	100.00	Airbus Deutschland GmbH	Hamburg (Germany)
	F	100.00	F	100.00	Airbus España SL	Madrid (Spain)
	F	100.00	F	100.00	Airbus Finance Company Ltd	Dublin (Ireland)
			F	100.00	Airbus Financial Service Holdings B.V.	Netherlands
	F	100.00	F	100.00	Airbus Financial Service Unlimited	Ireland
	F	100.00	F	100.00	Airbus France S.A.S.	Toulouse (France)
	F	100.00	F	100.00	Airbus Holding S.A.	France
	F	100.00	F	100.00	Airbus Invest	Toulouse (France)
	F	100.00	F	100.00	Airbus North America Customer Services, Inc. (ASCO)	USA
	F	100.00	F	100.00	Airbus North America Engineering	USA
	F	100.00	F	100.00	Airbus North America Sales Inc.	USA
	F	100.00	F	100.00	Airbus Americas Inc. (In 2006: Airbus North American Holdings Inc. (AINA))	USA
	F	100.00	F	100.00	Airbus S.A.S.	Toulouse (France)
	F	100.00	F	100.00	Airbus Transport International S.N.C. (ATI)	Blagnac (France)
	F	100.00	F	100.00	Airbus U.K. Limited	U.K.
	F	100.00	F	100.00	Avaio Limited	Isle Of Man
	F	100.00	F	100.00	Aviateur Aerospace Limited	Ireland
	E	20.00	E	26.40	Aviateur Capital Limited (In 2006: Avion Capital Limited)	Ireland
	F	100.00	F	100.00	Aviateur Eastern Limited	Ireland
	F	100.00	F	100.00	Aviateur Finance Limited	Ireland
	F	100.00	F	100.00	Aviateur International Limited	Ireland
	F	100.00	F	100.00	Aviateur Leasing Limited	Ireland
			F	100.00	AVSA Canada Inc.	Canada
	F	100.00	F	100.00	Norbus	USA
	F	100.00	F	100.00	Star Real Estate S.A.S.	Boulogne (France)
	F	100.00	F	100.00	Total Airline Service Company	United Arab Emirates

Additionally consolidated are 36 SPEs.

F: Fully consolidated. P: Proportionate. E: Equity method.
The stated percentage of ownership is related to the respective parent company.

	2007	%	2006	%	Company	Head office
Military Transport						
	F	90.00	F	90.00	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	77.21	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	F	100.00	Eurocopter Training Services S.A.S.	Marignane (France)
	F	76.52	F	76.52	Helibras – Helicopteros do Brasil S.A.	Itajuba (Brazil)
	E	25.00	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	ALKAN	Valenton (France)
	F	100.00	F	100.00	Apsys	Suresnes (France)
	E	16.20	E	13.20	Arbeitsgemeinschaft Marinelogistik	Bremen (Germany)
	E	14.70	E	12.00	Atlas Defence Technology SDN.BHD	Kuala Lumpur (Malaysia)
	P	49.00	P	40.00	Atlas Elektronik PTY Limited	St. Leonards (Australia)
	P	49.00			Atlas Elektronik U.K. (Holdings) Limited	Newport, Wales (U.K.)
	P	49.00			Atlas Elektronik U.K. Limited	Newport, Wales (U.K.)
	P	49.00	P	40.00	Atlas Elektronik GmbH	Bremen (Germany)
	P	49.00	P	40.00	Atlas Hydrographic Holdings PTY Limited	St. Leonards (Australia)
	P	49.00	P	40.00	Atlas Hydrographics GmbH	Bremen (Germany)
	P	49.00	P	40.00	Atlas Maridan ApS	Horsholm (Denmark)
	P	49.00	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	18.75	P	50.00	Bayern-Chemie Gesellschaft für flugchemische Antriebe mbH	Aschau/Inn (Germany)
	E	19.60	E	16.00	CybiCOM Atlas Defence (Proprietary) Limited	Umlhanga 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 Air Services (in 2006: EADS Services)	Boulogne (France)
	F	100.00	F	100.00	EADS CASA S.A. (Unit: Military Aircraft)	Madrid (Spain)
			F	100.00	EADS CASA S.A. (Unit: Operations Service)	Madrid (Spain)

F: Fully consolidated. P: Proportionate. E: Equity method.

The stated percentage of ownership is related to the respective parent company.

	2007	%	2006	%	Company	Head office
	F	100.00	F	100.00	EADS Cognac Aviation Training Services (In 2006: ECATS)	Paris (France)
	F	100.00	F	100.00	EADS Defence & Security Solutions España S.A.U. (In 2006: EADS Telecom España)	Madrid (Spain)
	F	100.00	F	100.00	EADS Defence & Security Systems Limited	Newport, Wales (U.K.)
	F	100.00	F	100.00	EADS Defence & Security Systems Limited – Holding	Newport, Wales (U.K.)
	F	100.00	F	100.00	EADS Defence & Security Systems S.A.	Elancourt (France)
	F	100.00	F	100.00	EADS Deutschland GmbH – Defence Headquarter	Unterschleißheim (Germany)
			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	EADS Deutschland GmbH (Unit: Operations Services)	Unterschleißheim (Germany)
	F	100.00	F	100.00	EADS North America Defense Company	Arlington, Delaware (USA)
	F	100.00	F	100.00	EADS Operations & Services U.K.	Newport, Wales (U.K.)
	F	100.00	F	100.00	EADS Secure Networks Deutschland GmbH (In 2006: EADS Telecom Deutschland GmbH)	Ulm (Germany)
	F	100.00	F	100.00	EADS Secure Networks Oy	Helsinki (Finland)
	F	100.00	F	100.00	EADS Secure Networks S.A.S.	Elancourt (France)
	F	100.00	F	100.00	EADS System & Defence Electronics Belgium	Oostkamp (Belgium)
	F	100.00	F	100.00	EADS Telecom Deutschland GmbH	Unterschleißheim (Germany)
	F	100.00	F	100.00	EADS Telecom Mexico SA de CV	Mexico DF (Mexico)
	E	30.00	E	30.00	ESG Elektroniksystem- und Logistikgesellschaft mbH	Munich (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	Germantown Holding Company	Frederick, Maryland (USA)
	F	100.00	F	100.00	Gesellschaft für Flugzielardarstellung mbH	Hohn, Germany
	F	100.00	F	100.00	Get Electronique S.A.	Castres (France)
	P	49.00	F	100.00	Hagenuk Marinekommunikation GmbH	Flintbek (Germany)
	F	100.00	F	100.00	IFR France S.A.	Blagnac (France)
			F	100.00	Integrated Defense Systems NA	Wilmington, Delaware (USA)
	P	37.50	P	37.50	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	Manhattan Beach Holdings Co.	Frederick, Maryland (USA)
	P	37.50	P	37.50	Marconi Oversight Ltd.	Chelmsford (U.K.)
			F	100.00	Matra Aerospace Inc.	Frederick, Maryland (USA)
	F	100.00	F	100.00	Matra Défense	Velizy (France)
	P	37.50	P	37.50	Matra Electronique	La Croix Saint-Ouen (France)
	F	100.00	F	100.00	Matra Holding GmbH	Frankfurt (Germany)
	P	37.50	P	37.50	MBDA France	Velizy (France)
	P	37.50	P	37.50	MBDA Holding	Velizy (France)
	P	37.50	P	37.50	MBDA Inc.	Westlack, CA (USA)
	P	37.50	P	37.50	MBDA Italy SpA	Roma (Italy)
	P	37.50	P	37.50	MBDA M S.A.	Chatillon sur Bagneux (France)

F: Fully consolidated. P: Proportionate. E: Equity method.
The stated percentage of ownership is related to the respective parent company.

	2007	%	2006	%	Company	Head office
	P	37.50	P	37.50	MBDA S.A.S.	Velizy (France)
	P	37.50	P	37.50	MBDA Services	Velizy (France)
	P	37.50	P	37.50	MBDA Treasury	Jersey (U.K.)
	P	37.50	P	37.50	MBDA U.K. Ltd.	Stevenage, Herts (U.K.)
	E	26.80	E	26.80	Patria Oyj (In 2006: Patria Industries Oyj)	Helsinki (Finland)
	F	80.00	F	80.00	Pentastar Holding	Paris (France)
	F	100.00	F	100.00	Proj2	Paris (France)
	P	18.75	P	50.00	Propulsion Tactique S.A.	La Ferte Saint Aubin (France)
	F	100.00	F	100.00	Racal Instruments U.S.	San Antonio, Texas (USA)
	F	100.00	F	100.00	Racal Instruments Group Ltd. U.K. (In 2006: Racal Instruments U.K.)	Wimborne, Dorset (U.K.)
			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	F	100.00	Sofrelog S.A.	Bozons (France)
	P	49.00	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	P	25.13	TAURUS Systems GmbH	Schrobenhausen (Germany)
	P	37.50	P	37.50	TDW- Ges. für verteidigungstechnische Wirksysteme GmbH	Schrobenhausen (Germany)
	F	100.00	F	100.00	Test & Services France	Velizy (France)
	F	100.00	F	99.99	Test & Services North America	Irvine, California (USA)
	F	100.00	F	100.00	TYX Corp.	Reston, VA (USA)
	E	50.00	E	50.00	United Monolithic Semiconductors France S.A.S.	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	Munich (Germany)
	F	100.00	F	100.00	Astrium GmbH – Space Transportation	Munich (Germany)
	F	100.00	F	100.00	Astrium Holding S.A.S.	Paris (France)
	F	100.00	F	100.00	Astrium Ltd. – Satellites	Stevenage (U.K.)
	F	100.00	F	100.00	Astrium S.A.S. – Satellites	Toulouse (France)
	F	100.00	F	100.00	Astrium S.A.S. – Space Transportation	Les Mureaux (France)
	F	100.00	F	100.00	Astrium S.A.S. Toulouse	Paris (France)
	F	100.00	F	100.00	Astrium Services GmbH	Ottobrunn (Germany)
	F	100.00			Astrium Services S.A.S.	Paris (France)
	F	100.00	F	100.00	Computadoras, Redes e Ingenieria SA (CRISA)	Madrid (Spain)
	F	100.00	F	100.00	Dutch Space B.V.	Leiden (Netherlands)
	F	100.00	F	100.00	Astrium Jersey Ltd.	Jersey (U.K.)
	F	100.00	F	100.00	Astrium N.V.	The Hague (Netherlands)
	F	100.00	F	100.00	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			GPT Special Project Management Limited	Riyadh (Saudi Arabia)

F: Fully consolidated. P: Proportionate. E: Equity method.

The stated percentage of ownership is related to the respective parent company.

	2007	%	2006	%	Company	Head office
	F	100.00	F	100.00	Infoterra GmbH	Friedrichshafen (Germany)
	F	100.00	F	100.00	Infoterra Ltd	Southwood (U.K.)
	F	100.00	F	100.00	Infoterra S.A.S.	Toulouse (France)
	F	100.00	F	100.00	Matra Marconi Space U.K. Ltd.	Stevenage (U.K.)
	F	75.00	F	75.00	MilSat Services GmbH	Bremen (Germany)
	F	100.00	F	100.00	MMS Systems Ltd	Stevenage (U.K.)
	E	47.40	E	47.40	Nahuelsat S.A.	Buenos Aires (Argentina)
	F	100.00	F	100.00	Paradigm Secure Communications (Holding) Ltd.	Stevenage (U.K.)
	F	100.00	F	100.00	Paradigm Secure Communications Ltd	Stevenage (U.K.)
	F	100.00	F	100.00	Paradigm Services Ltd	Stevenage (U.K.)
	F	89.98	F	89.98	Sodern S.A.	Limeil Brevannes (France)
	F	100.00			Space Management & Services S.A.S.	Paris (France)
	E	40.03	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	Aerobail GIE	Paris (France)
	P	50.00	P	50.00	ATR Eastern Support	Singapour (Singapour)
	P	50.00	P	50.00	ATR GIE	Toulouse (France)
	P	50.00			ATR India Customer Support	Bangalore (India)
	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	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.	Louey (France)
	F	100.00	F	100.00	EADS Sogerma S.A.	Mérignac (France)
			F	50.10	EADS Sogerma Tunisie	Monastir (Tunisia)
	F	100.00	F	100.00	Elbe Flugzeugwerke GmbH	Dresden (Germany)
	F	100.00	F	100.00	Maroc Aviation S.A.	Casablanca (Morocco)
	F	100.00	F	100.00	Noise Reduction Engineering B.C.	Washington D.C. (USA)
	F	100.00	F	100.00	Socata Aircraft Inc.	Miami, Florida (USA)
			F	100.00	Sogerma America Barfield B.C.	Miami, Florida (USA)
			F	60.00	Sogerma Services S.A.	Mérignac (France)

Additionally consolidated are 21 SPEs

F: Fully consolidated. P: Proportionate. E: Equity method.
The stated percentage of ownership is related to the respective parent company.

	2007	%	2006	%	Company	Head office
Headquarters						
	E	23.15	E	23.15	Aero Precision	Deerfield Beach (USA)
	F	75.00	F	75.00	DADC Luft- und Raumfahrt Beteiligungs AG	Munich (Germany)
	E	46.30	E	46.30	Dassault Aircraft Services	(USA)
	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	Dassault International (USA) Inc.	Paramus N.J. (USA)
	E	46.30	E	46.30	Dassault Procurement Services Inc.	Paramus N.J. (USA)
	F	97.16	F	97.11	Dornier GmbH – Zentrale	Friedrichshafen (Germany)
			F	88.00	EADS Aeroframe Services LLC	Lake Charles, Louisiana (USA)
	F	100.00	F	100.00	EADS Airbus Holding S.A.S.	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	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 S.A.S. – Headquarters (In 2006: EADS France)	Paris (France)
	F	100.00			EADS France S.A.S. – Innovation Work	Suresnes (France)
	F	100.00	F	100.00	EADS North America Inc.	Arlington (USA)
	F	97.16	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)
	E	23.15	E	23.15	Falcon Training Center	France
	F	100.00			Manhattan Beach Holding Company	Frederick, Maryland (USA)
	F	100.00	F	100.00	Matra Aerospace Inc. (In 2006: EADS Sogerma Participant)	Arlington (USA)
	E	46.30	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.

Auditor's Report on the Consolidated Financial Statement (IFRS)

To: The EADS N.V. shareholders.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying 2007 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 10th March 2008, which comprise the consolidated balance sheets as at 31st December 2007, the consolidated income statements, the consolidated statements of recognised income and expenses and the consolidated 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.

Auditors' 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 31st December 2007, 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 consolidated financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, 10th March 2008

Amsterdam, 10th March 2008

KPMG Accountants N.V.
L.A. Blok

Ernst & Young Accountants
F.A.L. van der Bruggen

Company Financial Statements

Balance Sheet of the Company Financial Statements

(in €m)		At 31 st December 2007	At 31 st December 2006
Assets	Note		
Fixed assets			
Goodwill	2	4,354	4,354
Financial fixed assets	2	11,303	12,298
		15,657	16,652
Non-fixed assets			
Receivables and other assets	3	5,526	4,387
Securities	4	4,280	1,660
Cash and cash equivalents	4	6,444	6,862
		16,250	12,909
Total assets		31,907	29,561
Liabilities and stockholders' equity			
Stockholders' equity⁽¹⁾	5		
Issued and paid up capital		814	816
Share premium		7,968	8,160
Revaluation reserves		3,973	3,657
Other legal reserves		1,884	1,472
Treasury shares		(206)	(349)
Retained earnings		(1,343)	(741)
		13,090	13,015
Non current liabilities			
Financing liabilities	6	316	320
Non current other liabilities	6	1,532	1,518
		1,848	1,838
Current liabilities			
Current other liabilities	7	16,969	14,708
		16,969	14,708
Total liabilities and stockholders' equity		31,907	29,561

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

Income Statement of the Company Financial Statements

(in €m)		2007	2006
Income from investments		(380)	95
Other results		(66)	4
Net result	8	(446)	99

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 2007 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 income statement 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 including subsidiaries, 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 to the extent the company cannot enforce dividend distribution.

2. Fixed Assets

The goodwill acquisition costs end of 2007 amount to €5,676 million (2006: €5,676 million) and the cumulative amortisation and impairments to €1,322 million (2006: €1,322 million).

The movements in financial fixed assets are detailed as follows:

(in €m)	Subsidiaries	Participations	Loans	Total
Balance at 31st December 2006	10,057	76	2,165	12,298
Acquisitions/additions			255	255
Reductions/redemptions	(83)		(1,244)	(1,327)
SOP/ESOP	47			47
Net income from investments	(387)	7		(380)
Actuarial gains/losses IAS 19	403			403
Dividends received	(129)	(4)		(133)
Translation differences/other changes	125	15		140
Balance at 31st December 2007	10,033	94	1,176	11,303

The investments in subsidiaries are included in the balance sheet based on their net asset value in accordance with the aforementioned accounting principles of the consolidated financial statements. The participations include available-for-sale securities and investments accounted for using the equity method.

The translation differences/other changes reflect mainly the impact in the other comprehensive income related to the application of IAS 39.

Significant subsidiaries, associates and joint ventures are listed in the appendix “Information on principal investments” to the consolidated financial statements.

Loans provided to affiliated companies amount to €1,167 million (2006: €2,165 million). In average, the interest rate of the loans is 5,3%. An amount of €505 million has a maturity between five and ten years and an amount of €325 million matures after ten years. The item redemptions mainly reflects the redemption of a loan provided to Paradigm Secure Communications.

3. Receivables and Other Assets

(in €m)	2007	2006
Receivables from affiliated companies	5,317	4,253
Receivables from related companies	-	22
Other assets	209	112
Total receivables and other assets	5,526	4,387

The receivables from affiliated companies include mainly receivables in connection with the cash pooling in EADS N.V.

An amount of €47 million (2006: €18 million) is due after one year.

4. Securities, Cash and Cash Equivalents

The securities comprise mainly available-for-sale Securities. The available-for-sale security portfolio contains a non-current portion of €2,685 million. For further information please see Note 18 of the Consolidated Financial Statements.

EADS limits its cash equivalents to such investments having a maturity of three months or less from acquisition date.

5. Stockholders' Equity

(in €m)	Capital stock	Share premiums	Revaluation reserves	Other legal reserves	Treasury shares	Retained earnings	Total equity
Balance at 31st December 2005	818	8,715	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		(520)					(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 31st December 2006	816	8,160	3,657	1,472	(349)	(741)	13,015
Capital increase	3	43					46
Net income						(446)	(446)
ESOP/SOP IFRS 2						48	48
Cash distribution		(97)					(97)
Transfer to other legal reserves				204		(204)	
Cancellation of shares	(5)	(138)			143		
Others			316	208			524
Balance at 31st December 2007	814	7,968	3,973	1,884	(206)	(1,343)	13,090

For further information to the Stockholders' equity, please see Note 20 of the Consolidated Financial Statements.

As of 31st December 2007, the item "Revaluation reserves" relates to €3,550 million (2006: €3,188 million) resulting from changes in the fair values of cash flow hedges, recognised directly in equity and €423 million (2006: €469 million) resulting from the fair value of Securities classified as available for sale.

The other legal reserves are related to EADS' share in the undistributed results from investments for €841 million

(2006: €664 million) internally generated capitalised development costs of €900 million (2006: €873 million), €1,103 million (2006: €1,298 million) resulting from currency translation effects of affiliated companies, compensated by the recognition of actuarial losses arising from defined benefit plans in equity of €960 million (2006: €1,363 million).

The internally generated development costs reflect capitalised development costs in the consolidated subsidiaries and allocated to other legal reserves in accordance with Article 2:389 paragraph 6 of the Dutch Civil Code.

6. Non Current Liabilities

The financing liabilities include a long term loan, granted by the European Investment Bank to EADS in the amount of U.S.\$421 million and a shareholder loan granted by Sogea in the amount of €29 million. For further details, please see Note 23 of the consolidated financial statements.

The non current other liabilities include mainly liabilities to subsidiaries in connection with the cash pooling in EADS N.V.

7. Current Other Liabilities

(in €m)	2007	2006
Liabilities to affiliated companies	15,881	13,726
Liabilities to related companies	986	874
Other liabilities	102	108
Total	16,969	14,708

The liabilities to affiliated companies include with an amount of €15,871 million (2006: €13,725 million) liabilities to subsidiaries and comprise mainly liabilities in connection with the cash pooling in EADS N.V.

8. Net Result

The net result in 2007 amounts to a loss of €446 million (2006: profit of €99 million).

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 with an amount of €88 million. 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. and therefore the company is several and jointly liable for the fiscal unity as a whole.

11. Remuneration

The total **cash gross remuneration** and related compensation costs of the members of the Board of Directors and former directors in 2007 and 2006 can be specified as follows:

	2007	2006
	(in €)	(in €)
Fixum	4,194,733	4,564,086
Bonus (related to reporting period)	3,294,312	2,361,451
Fees	390,000	395,000
	7,879,045	7,320,537

The cash remuneration of the members of the Board of Directors was as follows:

2007	Fixum	Bonus related to 2007	Fees	Total
Directors	(in €)	(in €)	(in €)	(in €)
Rüdiger Grube	30,000	109,813	85,000	224,813
Louis Gallois	1,147,701	957,885	-	2,105,586
Rolf Bartke	-	11,766	15,000	26,766
Dominique D'Hinnin	-	11,766	15,000	26,766
Juan Manuel Eguiagaray Ucelay	30,000	62,750	50,000	142,750
Arnaud Lagardère	60,000	113,734	60,000	233,734
Hermann-Josef Lamberti	-	11,766	10,000	21,766
Lakshmi N. Mittal*	-	-	-	-
Sir John Parker	-	11,766	20,000	31,766
Michel Pébereau	-	41,833	25,000	66,833
Bodo Uebber	-	41,833	10,000	51,833
Former directors				
Manfred Bischoff	60,000	31,375	50,000	141,375
Thomas Enders**	1,218,157	800,275	-	2,018,432
Jean-Paul Gut	818,937	388,500	-	1,207,437
Hans-Peter Ring**	769,938	597,282	-	1,367,220
François David	30,000	50,984	30,000	110,984
Michael Rogowski	30,000	50,984	20,000	100,984
Total	4,194,733	3,294,312	390,000	7,879,045

(*) Remuneration waived at the Director's request.

(**) Prorata in accordance with their periods of membership with the Board of Directors.

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 (until end of June)*	-	-	-	-
Louis Gallois (since July 06)	450,000	257,612	-	707,612
Jean-Paul Gut	943,693	456,527	-	1,400,220
Hans-Peter Ring	951,193	456,527	-	1,407,720
François 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

(*) Remuneration waived at the Director's request.

(**) Including regularisation of €30,000 relating to the 2005 attendance fees paid in 2006.

(***) Prorata in accordance with his period of membership with the Board of Directors.

The table below gives an overview of the interests of the current Executive Board Directors under the various **long term incentive plans** of EADS:

STOCK OPTION PLANS

Number of options							
Year of plan	Initially granted	As at 1 st Jan. 2007	Granted in 2007	Exercised during 2007	As at 31 st Dec. 2007	Exercise price (in €)	Expiry date
Louis Gallois							
2006	67,500	67,500	-	-	67,500	25.65	16 th Dec. 2016

PERFORMANCE SHARES PLAN

Number of performance shares*							
Year of plan	Initially granted	As at 1 st Jan. 2007	Granted in 2007	Vested during 2007	As at 31 st Dec. 2007	Vesting date	
Louis Gallois							
2006		16,875	16,875	-	16,875	Publication of the 2009 annual results, expected in March 2010	

(*) Vesting of all performance shares granted to the Chief Executive Officer is subject to performance conditions.

PERFORMANCE UNITS PLAN

Number of performance units**:		Granted in 2007	Vesting date
Louis Gallois		33,700	Vesting schedule is made up of 4 payments over 2 years: <ul style="list-style-type: none"> • 25% expected in May 2011; • 25% expected in November 2011; • 25% expected in May 2012; • 25% expected in November 2012.

(**) Vesting of all performance units granted to the Chief Executive Officer is subject to performance conditions.

Stock option plans

To the former Executive Board Directors who ceased their membership with the Board of Directors in 2007, the number of outstanding stock options amounted to 865,000 as at 31st December 2007.

To the other current members of the Executive Committee and to the Group's senior management, the number of outstanding stock options amounted to 27,817,282 at the same date.

During the year 2007, none of the Executive Committee Members, including former Executive Board Directors (who ceased their membership with the Board of Directors in 2007), have exercised options granted under the various EADS stock option plans. Exercises of EADS Executive Committee Members are disclosed on the EADS internet website in accordance with the applicable regulations.

Performance and Restricted shares plan

To the former Executive Board Directors who ceased their membership with the Board of Directors in 2007, the number of the outstanding performance shares, subject to achievement of performance results, amounted to 41,875 as at 31st December 2007.

To the other current members of the Executive Committee and to the Group's senior management, the number of outstanding performance and restricted shares amounted to 1,656,375 at the same date.

Performance and Restricted units plan

To the former Executive Board Directors who ceased their membership with the Board of Directors in 2007, the number of the outstanding performance units, subject to achievement of performance results, amounted to 58,700 as at 31st December 2007.

To the other current members of the Executive Committee and to the Group's senior management, the number of outstanding performance and restricted units amounted to 2,107,600 at the same date.

The expense in 2007 for stock options, performance shares and performance units granted to the Chief Executive Officer was €0.4 million.

For further information, please see Note 31 of the Consolidated IFRS Financial Statements.

Former Director and Executive Committee member :

Under the terms of his employment contract, Jean-Paul Gut was entitled to:

- six-month notice period, reduced to four-month notice period at Jean-Paul Gut's request, which represented a payment of €466,667 gross (fixum and bonus) (included in the cash remuneration figures disclosed above);
- a termination package of €2,800,000 (two years of total target income);
- an indemnity aiming at compensating his accumulated additional pension rights at the date of his departure.

In addition, EADS has concluded with Mr Jean-Paul Gut a long-term Service Provider's Agreement, in order to retain Mr Gut's specific expertise in the field of marketing and M&A activities.

The **pension benefit** obligation for the Executive Committee Members is as follows:

The Members of the Executive Committee 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 upon reaching 5 years of service in the Executive Committee of EADS at the age of 60 or 65.

These rights can 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 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 Chief Executive Officer, the amount of the pension defined benefit obligation amounted to €0.8 million as of 31st December 2007, while the amount of current service and interest cost related to his pension promise accounted for during fiscal year 2007 represented an expense of €0.6 million. This obligation has been accrued for in the Financial Statements.

Other benefits

All amounts reported above for the Executive Board Directors (current and former) are free of benefits in kind they are entitled to, as well as all national social and income tax impacts.

The Chief Executive Officer is entitled to a company car. The value of his company car is €23,977.

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

For further information on the remuneration, please see Note 32 of the Consolidated Financial Statements.

12. Employees

The number of persons employed by the company at year-end 2007 was 3 (2006: 3).

13. Related Party Transactions

In 2007, Lagardère and the French State granted through the holding company Sogead to EADS their received dividend for the year 2006 in the amount of €29 million as an interest free loan.

Supplementary Information

1. Auditors' Report

To: The EADS N.V. shareholders.

REPORT ON THE COMPANY FINANCIAL STATEMENTS

We have audited the accompanying 2007 company financial statements which are part of the financial statements of European Aeronautic Defence and Space Company EADS N.V., Amsterdam, as authorised for issue on 10th March 2008, which comprise the balance sheet as at 31st December 2007, 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 31st December 2007, 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, 10th March 2008

Amsterdam, 10th March 2008

KPMG Accountants N.V.
L.A. Blok

Ernst & Young Accountants
F.A.L. van der Bruggen

2. Other Supplementary Information

1. 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 loss of €446 million as shown in the income statements for the financial year 2007 is to be deducted from retained earnings and that a payment of a gross amount of €0.12 per share shall be made to the shareholders from distributable reserves.

2. SUBSEQUENT EVENTS

For further information please see Note 37 of the Consolidated Financial Statements.

Useful Information

How to attend the meeting

Hotel 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 Lelystad Centrum or Hilversum, to the first (Zuid Station) or 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

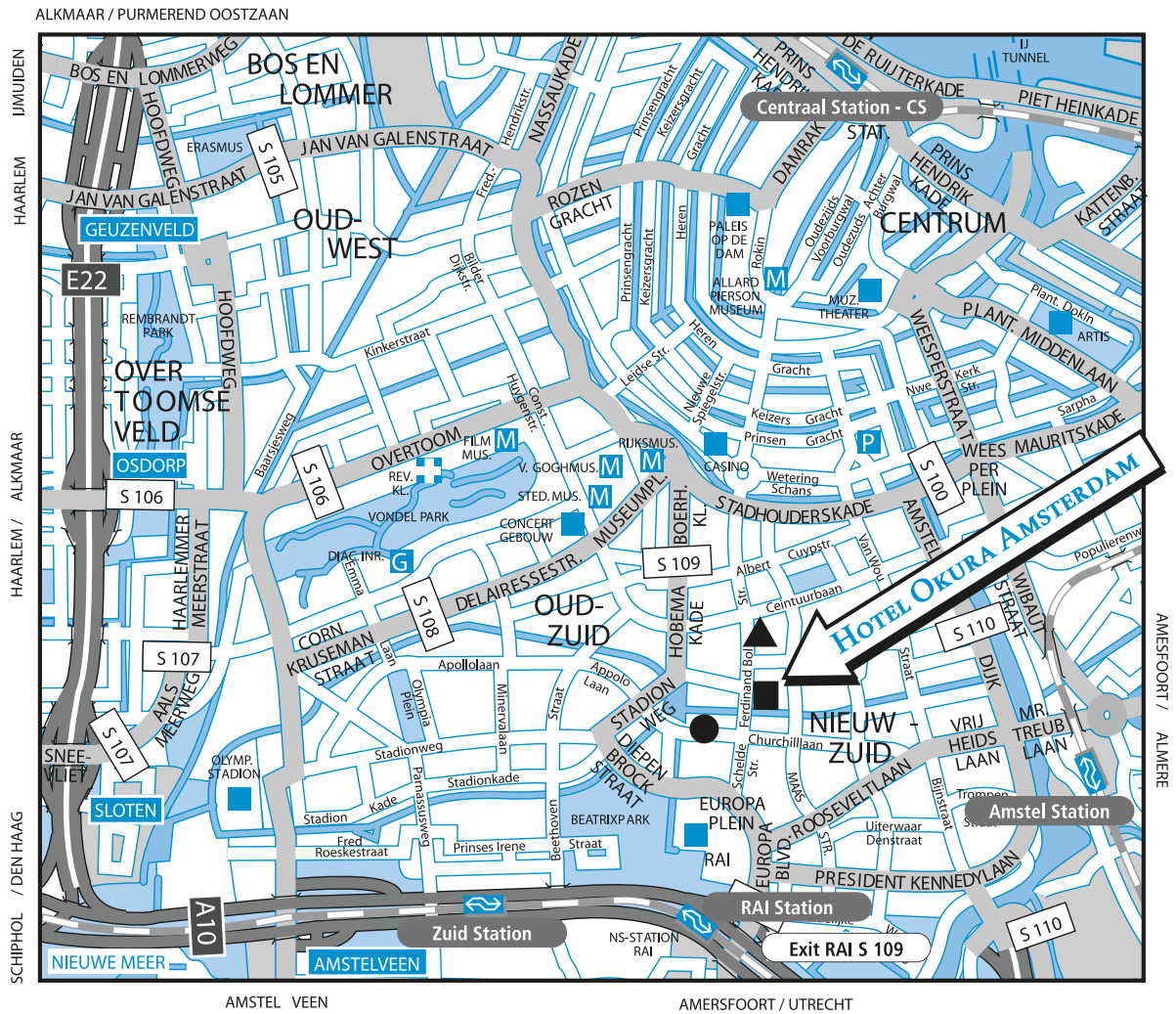
Walk in the direction of Europa Boulevard. Go straight away to Europaplein and then to Scheldestraat. After 500 meters, Hotel Okura appears on your right hand side, just after the bridge. Walking time: 10 minutes.

From Amstel Station

Take the tram number 12, direction Sloterdijk, to the fifth stop (Scheldestraat, see the map ●), or bus number 15, direction Sloterdijk, to the seventh stop (Scheldestraat, see the map ●). Walk in Churchillaan 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 Churchillaan 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.



www.eads.com

Shareholders Information

- Toll-free number from:

France: 0 800 01 2001

Germany: 00 800 00 02 2002

Spain: 00 800 00 02 2002

- Phone: +33 1 41 33 90 94

- E-mail: ir@eads.com

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