

# 2

## CORPORATE SOCIAL RESPONSIBILITY

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EADS was built around shared values of integrity and social and ethical responsibility. Although 2006 has not been an easy year for EADS, events within the Company having caused stakeholders to ask critical questions about the management and the organisational structure, the Group's strengths and achievements are not to be underestimated. EADS is determined to fulfilling its commitment to a sustainable and balanced relationship with stakeholders. Ensuring customer satisfaction, as well as ensuring development of employee and supplier relationships remains a foundation of EADS' success, operations and culture. The entire Group remains committed to the principles and values that are laid down in its Code of Ethics as well as to the Corporate Social Responsibility ("CSR") policies which were formalised in 2004.

The EADS approach to CSR takes into account the Group specificities:

- It provides a framework setting out guidelines for the BUs that are responsible for the day to day business and that ensures dialogue with their direct stakeholders.
- It addresses the EADS CSR key challenges such as export control compliance: As a defence company, EADS Group specifically acknowledges its responsibility in selling defence products and providing services to nations that contribute to their security during peace time. EADS delivers products and integrated solutions pursuant to customer specification. These products have to comply with the applicable laws put in place by the responsible government (arms export laws, embargo rules, Ottawa agreement, and anticorruption policy).
- It incorporates the specific nature of the Group products, such as the average lifecycle of over 30 years which requires a continuous long-term approach.

The present chapter aims at demonstrating that the EADS CSR policies are increasingly incorporated into the daily business, by describing best practices identified throughout the Group and reporting performance indicators. A number of quantitative and qualitative Key Performance Indicators ("KPI"), based upon the Global Reporting Initiative, the Global Compact principles and the French Nouvelles Régulations Économiques and tailored to EADS' business were indeed defined starting with the 2004 report and reflect some of EADS CSR achievements.

## EADS Code of Ethics

At the time of the creation of EADS, the Code of Ethics was established and communicated to the employees of the Group. This Code of Ethics aimed at emphasizing values that were key success factors for achieving an efficient integration of different companies into one group. In 2005, more than four years after the creation of EADS, in light of its establishment as a market leader in many of its businesses, and considering the evolving

legal environment relating to business ethics, EADS updated the Code of Ethics in order to reflect practices recommended by various codes and laws and to align with best practice.

The enhanced EADS Code of Ethics sets out in one single comprehensive document the EADS Group business guidelines related to the ethical standards that the Group adheres to.

The Code of Ethics serves as a core EADS business guideline in an architecture of documents in which the code also refers to pre-existing, detailed policies as laid out in the EADS Corporate Handbook as well as Division or BU specific policies and processes. It is based on EADS' underlying values and fully in line with international recognised standards as laid out in charters, declarations or guidelines, such as the Universal Declaration of Human Rights, International Labour Organisation's Declaration and OECD Convention. EADS, as a signatory of the United Nations Global Compact, is committed to promoting, within its sphere of influence, the application of fundamental values regarding Human Rights, Labour, Environment and Anticorruption. EADS is willing to report on the Group's success in implementing its sustainable development strategy.

Since April 2006, it is available in the four EADS languages on the Group intranet and can be downloaded from the EADS web site [www.eads.com](http://www.eads.com).

The Code of Ethics covers the full scope of EADS' CSR policies, addressing in its five chapters the principal lines of ethical behaviour:

- "Creating a positive working climate" describes EADS' principles in terms of, e.g. dialogue and representation, equal opportunities policy, and management of HR development;
- "Doing business ethically" discusses issues such as conflicts of interest, export control and contracting with governments, as well as the hiring of government officials;
- "Fostering sustainable growth" deals with proper use of information and intellectual property rights, as well as relationships with suppliers;
- "Respecting the environment" covers developing environmentally sound processes and products;
- "Living in our communities" describes the ways in which EADS contributes to the life and development of communities where it operates.

The Code of Ethics, therefore, gives guidance to all employees about appropriate conduct in their professional environment.

EADS is committed to implementing the principles described in this Code, in particular through entrusting an EADS Ethics Committee with compliance responsibility in ethics matters.

The Code of Ethics describes the missions of the Ethics Committee set up by the EADS Board of Directors. In particular, the Ethics Committee will offer guidance to the EADS Chairmen, the Board of Directors and its Committees, the CEOs, COOs and Executive Committee, as well as management at large regarding all ethical questions. The Committee will submit at least annually a report to the EADS Board of Directors with respect to each year's activities. It will also implement appropriate coordination with the compliance functions of EADS and its Divisions.

In 2006, EADS initiated a review of its compliance activities and processes; its findings were that EADS had a reasonably solid base of compliance practices, compliance processes existing for each of the CSR domains relevant for the business. Within the aerospace and defence industry, the overall level of compliance in the CSR domains is globally rated average or above average by rating agencies. The level of achievement by EADS of these agencies' expectations varies among the covered topics, depending upon the compliance levels that the Group has already completed e.g. the international compliance programme (see *infra* 2.1.1) is well perceived by EADS' stakeholders for it provides clear compliance rules, a structured

compliance organisation and the implementation of compliance processes is substantiated by KPIs. Notwithstanding, the Group is considering to further develop its compliance approach and thus, is studying the possible implementation of a comprehensive group-wide compliance organisation to address overall compliance in a structured way. This organisation would also aim at further developing the awareness of the principles laid down in the Code of Ethics as well as at ensuring that individual behaviours are in line with the Group's commitments and policies. The contemplated organisation shall incorporate an ethics alert system.

### EADS CSR policies

EADS policies have been designed to support and implement EADS' long-term vision and strategy in terms of CSR and are supported by an internal control system in areas such as compliance with OECD rules, export restrictions, IP protection, research and development etc. (See "Part 1/2.1.5 Internal Control and Risk Management Systems"). They give guidance for day-to-day business and are in accordance with EADS' underlying values.

#### CSR POLICIES ON DOMAINS IDENTIFIED AS MOST RELEVANT FOR EADS

CSR Domains	Specific Policy Items
Business Ethics	Proper business practices Export Control Compliance Compliance with the laws regarding all EADS' activities Corporate Governance standards
Sustainable Growth	Product quality and customer satisfaction Sustaining and protecting innovation Fostering a mutually beneficial relationship with EADS' suppliers
Environmental Care	Minimizing environmental impacts of EADS' activities Taking into account environmental impacts of EADS' products throughout their lifecycle
Employer-Employee Relationship	Providing a safe workplace for EADS' employees and subcontractors Caring for EADS employees and know-how Ensuring equal opportunity for all EADS employees Ensuring efficient management of skills and know-how Promoting a proactive dialogue with EADS' employees
Corporate Citizenship	Maintaining an open dialogue with EADS' stakeholders Encompassing community interests in EADS' global strategy

The policies and related practices are set out in more detail below.

## 2.1 Business Ethics

### 2.1.1 Proper Business Practices

Doing international business requires being especially vigilant so as to ensure that all companies belonging to the EADS Group always comply with all applicable laws and regulations relating to international sales, as well as with very high business ethics and integrity standards. EADS aims at setting standards to govern its business ethics and integrity policies which often go beyond applicable laws and regulations.

To achieve this aim, EADS International has been implementing a comprehensive set of rules and processes since 2000 aiming at ensuring compliance with such laws, regulations and business ethics and integrity standards.

#### 2.1.1.1 Policy

- *“EADS is active in sectors which are strictly ruled by national and international regulations. EADS is committed to absolute compliance with applicable regulations wherever its entities operate.*
- *Fighting against corruption and economic crime in foreign trade has become a major challenge for all international companies. In order to meet this challenge, EADS is fully committed to complying with applicable national and international legislation, including the OECD Convention of November 1997, as incorporated into the legislation of 35 countries. EADS’ International Compliance Programme (also known as the “Foreign Trade Rules”) is a corporate policy, applicable to all international operations of EADS and its affiliated companies, intended to detect and prevent bribery and unfair dealing.*
- *EADS is often involved in proposals, bid preparations or contract negotiations with governmental authorities because of the nature of its products and services. The Group’s policy is to compete fairly and legally for all business opportunities as well as to conduct negotiations and perform contracts when awarded in compliance with all applicable requirements, specifications and contractual obligations.”*

#### 2.1.1.2 Organisation

##### The Foreign Trade Rules

EADS has implemented a detailed corporate policy, the *Foreign Trade Rules*, which applies to all international operations of the Group entities, and which is intended to detect and prevent

bribery and unfair dealing in international sales. This policy has been published in EADS’ Corporate Handbook, which is available to all employees through the company intranet.

The policy entails effective control of international operations, through the conduct of appropriate due diligence of business partners, regular audit and reporting mechanisms and enhanced training sessions within all BUs. It also sets out appropriate guidelines regarding the acceptance of gifts and hospitality.

The main pillars of the Foreign Trade Rules are the following:

- Transparency in the selection of all business partners. All business partners engaged by an EADS company have undergone a strict engagement procedure, based on (i) a due diligence aimed at confirming that the prospective business partner is reputable and qualified to work for EADS, (ii) internationally recognized standards (location, credentials, ethical track record, etc.) and (iii) a commitment to abide by the Group policies prohibiting corruption and payment of bribes;
- “Appropriate remuneration for legitimate services”. EADS is very keen to ensure that all payments due and payable to any business partner are justified by legitimate services rendered and do not exceed sound market practices; and
- Monitoring of the contractual relationships with such business partners (and the related payments) until satisfaction of all contractual duties.

Those policies and procedures normally apply to all operations directly or indirectly relating to foreign trade.

The Group’s business partners must respect these policies and procedures, and any failure to do so may lead to early termination of the contract in place.

Furthermore, EADS conducts regular audits of implementation of all related agreements entered into by BUs to verify that Group policies and procedures are properly implemented and the BUs are instructed to report on a yearly basis on the implementation of such policies and procedures. This is especially the case concerning the payments made to the business partners, which must at all times be fully justifiable.

Since October 2002, EADS has set up a network of 42 International Compliance Officers (“**ICOs**”) representing each BU. ICOs are responsible for ensuring the correct application of the policies and procedures within the Group. They are also in charge of nominating appropriate “ICO correspondents” in foreign subsidiaries with a view to properly cascading the compliance duties in all operating countries.

### Partnerships and initiatives

EADS has also developed regular contacts with international bodies such as the OECD, the International Chamber of Commerce (“**ICC**”) and the European Union (“**GRECO**”) and peer companies with a view to setting and promoting integrity standards in the aerospace and defence sector. In this respect, EADS is pursuing a business dialogue with the European Aerospace & Defence Industries Association of Europe (“**ASD**”) and its members (such as CIDEF and GIFAS in France, BDLI in Germany, AFARMADE in Spain or SBAC in the U.K.), and also with major European aerospace and defence companies, in order to launch a platform of principles aiming at setting high standards, exchanging best practices, promoting training and compliance programmes, and more generally generating common European industry positions on ethics and anti-corruption issues.

This platform would be open to all international aerospace and defence companies and associations, especially those belonging to OECD countries (e.g., U.S.), but also non-OECD countries at a later stage. As a matter of fact, EADS views such an international initiative as a perfect opportunity to enhance the level playing field which the OECD convention, and thereafter the UN Convention signed in Merida in December 2003, have started to establish.

EADS is also maintaining a relationship with the ICC anti-corruption Commission and the French Corruption Monitoring Council (*Service central de prévention de la corruption*), which signed a convention with EADS in 2003.

According to a survey conducted by Novethic and the SCPC (*Service Central de Prévention de la Corruption*) in 2006, only seven companies amongst those belonging to the French CAC 40 are reported being transparent and meeting international standards. EADS is one of these companies.

#### 2.1.1.3 Performance and Best Practices

In December 2005, EADS amended the **Foreign Trade Rules**, as a result in particular of advice received from reputable international experts in business ethics and anticorruption laws and practices. The main objective of these amendments was to adapt the Foreign Trade Rules to the evolution of the Group,

and to disseminate the identified best practices across the Group as a whole.

EADS conducts regular **assessments and audits** to detect and spread Group best practices in international business ethics.

In addition, the Group has developed a comprehensive **training policy** so as to disseminate an awareness culture within all BUs. All employees dealing with international business attend such training sessions. In order to communicate and explain the Group’s corporate values and policies to all concerned, around 76 training sessions took place in 2006 across EADS, sometimes with the attendance of third parties (prosecutors, representatives of international bodies, lawyers, etc.). This represents again a very significant increase compared to 2005, which tends to demonstrate that the dissemination of a compliance culture is a key element of EADS’ management system.

The Group issued a leaflet “*EADS International Business Ethics Policy For Consultant Agreements: Transparency & Substantiation*” in January 2004, which is given to all prospective international marketing consultants. This leaflet summarises Group policies and procedures regarding selection of international business partners. Such international business partners are also invited to attend specific training sessions when deemed appropriate.

The Group’s ICOs meet periodically to share concerns and best practices. An annual ICO Conference has been organised since 2003 involving more than 100 people involved in foreign trade business and operations. The last “International Compliance Officers Workshop” held on June 2006 in Paris was focused on:

- The update of the EADS Rules, published in December 2005, which enlarge the scope of implementation to any international operation directly or indirectly connected to any commercial campaign;
- The achievements made regarding the implementation of the Rules Relating to Foreign Trade within the BUs, including the EADS Guideline “Gifts & Hospitality”.

Information on criminal law and its consequences for companies and employees.

EADS also releases Group-wide internal bulletins on a regular basis, the so-called **ICO information letters**. These focus on the evolution of the regulatory environment for foreign trade and highlight information reported by international media regarding the fight against corruption and economic crime worldwide. These bulletins are intended to complete and update the information given to EADS employees during the training sessions.

In relation with its international businesses, EADS uses third parties, such as consultants and international business partners in order to provide appropriate assistance and expertise to BUs on current or potential business for EADS and/or promote EADS products or services in various countries. The contractual arrangements for such services are governed by internal rules and policies that describe the entire contractual process, from the selection of the partner to the implementation and

execution of the agreed service. In order to ensure that the rules are understood and strictly applied, consultant and service providers agreements are audited. The purpose of these audits is to check the substantiation of the contractual duties delivered by the third party in exchange of its remuneration. The table below presents information concerning the percentage of consultant files audited in each of the past three years. None of the audits have revealed any material deficiencies.

	2006	2005	2004
Consultant & some other business partners files audited*	91.9%	92.3%	89.50%
Number of ICO information letters issued	3	3	3
Number of training sessions held by ICOs	76	52	20

Scope: EADS.

(\* Total audited files/Total active files of consultants and other international business partners (2005 and 2004 figures have been re-calculated accordingly).

Improvement of the Rules' implementation process within existing, and new EADS controlled entities, has increased the number of Consultant and other Business Partners files received by EADS IO.

## 2.1.2 Export Control Compliance

### 2.1.2.1 Policy

- "EADS is committed to complying with all import and export control regulations that govern the exports and imports of commodities, technical data and technical support.
- EADS always obtains export licenses and other government approvals prior to exporting products and technology controlled by governments or the EU."

According to the particular nature of the industries that it is active in, EADS has put a special focus on the overall compliance with export control regulations and laws. Especially in the area of defence and dual use goods, the governments are important customers, EADS has established a cascading system of export control procedures and policies, also taking into account that export policy is an important element of foreign policy of the governments of EADS home countries.

### 2.1.2.2 Organisation

In the Western world, export legislation has a high degree of commonality and export control rules are harmonised by various international export control regimes by the governments. Therefore, the ultimate decision for exports is always in the hand of relevant governments and EADS does not export any product without a respective export licence.

Within EADS, there are **national export control**

**organisations** in each country, assuring compliance with the respective national laws and regulations. They give approval or advice for all export activities (prospecting, negotiation, offers, proposals, licensing, shipment...) at the earliest possible point in time. These organisations are also responsible for adequate education and training of all export control officers in the Divisions and communication of actual laws and regulations. They also ensure harmonised licensing procedures according to the respective national regulations. Meetings between the national export control organisations are held on a regular basis.

In addition, in each of the **Divisions** there is a **cross country export control organisation** in place handling both the business specific issues and the day to day business and controlling compliance with licenses at the final stage of the delivery of the goods, technologies or services.

In each of its home countries, EADS is known as a reliable exporter. It works closely together with the government in the ultimate goal of preventing proliferation of sensitive goods and technologies to non reliable countries or persons. For any delivery, EADS checks the reliability of the end use and the end users according to various criteria.

In recognition of EADS seriousness and reliability, the Group is a privileged partner to the governments of its home countries

and e.g. holds Global Project Licences and simplified approval and exporting procedures.

Although the responsibility and liability for exports is in the hand of its business units, the CEOs reserve personally the ultimate decision for any **export in sensitive countries** by a special directive and special procedures. This procedure is based on a case by case review in which EADS International provides EADS' top management with legal elements and geo-politics inputs for the final decision.

If a planned export may be of concern for one of EADS home countries, the situation is checked in the political environment in close connection with the governmental authorities.

### 2.1.2.3 Performance and Best Practices

#### Export Control Committee

The national Heads of Export Control form the Export Control Committee and hold quarterly meetings for the exchange of information, establishing specific cross country recommendations tailored to the operative business (space, defence, aeronautics).

The Export Control Committee has prepared an EADS Compliance Directive in export matters and maintains the information about sensitive countries up to date. The national Heads of Export Control are also responsible to issue national export control compliance manuals on the basis of EADS common principles and rules.

## 2.1.3 Compliance with Law Regarding all EADS' Activities

Compliance and verification of compliance with all the laws and regulations of the countries where the Group does business is a must at EADS. Rapid changes in the industry and the overall global environment constantly present new legal or regulatory requirements which call for robust internal controls in the field of legal compliance. It has also resulted in the adoption in 2000 of EADS Insider Trading Rules.

#### Training and Education

The export control professionals hold training and education sessions for employees and managers of all operative organisations involved in export control (e.g. procurement, sales, and project management). Export control education is also part of EADS management development programmes.

#### Procurement Directive

Due to the extraterritorial application of export and re-export regulations in some countries (e.g. U.S.), EADS is forced and committed to complying with these laws and regulations. In order to ensure compliance and to manage economic risks, EADS has issued a procurement directive. This directive asks for export classification of foreign products already in the phase of procurement in order to be able to be compliant during the whole supply chain and to minimize economic risks of compliance cost for further phases.

#### Audits

The EADS export compliance system is regularly audited and approved by governmental authorities. Also external ex post controls of compliance with laws and regulations are performed.

In 2005, a comprehensive internal audit took place for the export control systems in each country and in each Division. There were no major findings neither by external audits nor by the internal audits concerning legal compliance. However, the internal corporate audit team requested and recommended improvements concerning commercial and business risks.

During 2006, all of the requested actions and the majority of the recommended actions were implemented.

#### 2.1.3.1 Policy

- *“EADS is committed to complying with antitrust and competition as well as humanitarian law, when applicable, in all of its activities and throughout the Group.*
- *EADS screens new customers and suppliers to ensure that they do not do banned business.”*

**The overall compliance with the law programme:** Amongst the various areas of the law which require constant monitoring, it is worth mentioning a few examples that are of particular importance to EADS although the list is only indicative. Examples of this permanent monitoring process are: compliance

with the laws and regulations governing competition, protection of the environment, public sector procurement and accounting and financial reporting.

Compliance with Corporate Governance standards is another area of focus. Governance practices are developed and monitored to fulfil the Board's responsibility towards customers, shareholders and employees, to oversee the work of the management in the conduct of the Company's business, and to serve the long-term interest of stakeholders.

**Insider Trading Rules:** The Dutch AFM, as well as other stock exchange authorities (the French AMF, the German BaFin, and the Spanish CNMV), which regulate the markets on which EADS securities are listed, impose certain rules upon EADS and require it to enforce these rules internally. Hence, EADS adopted in 2000, its Insider Trading Rules. EADS Insider Trading Rules belong to the best practise processes and apply to all EADS employees and even for some time after people retire or left the company. The guiding principle is that employees should freely perform any EADS securities transactions provided that they act in accordance with the EADS group's policies which are set out in the EADS Insider Trading Rules. According to the rules, more than 2,500 managers are strictly subject to no-trading periods over the year. People in higher and top management functions have only very limited trading windows after each of the quarterly results publication. On top of this, those concerned also have to inform the ITR Compliance Officer in order to proceed with the transactions. All No-Trading Periods are widely communicated amongst the respective communities and people are personally informed by mail when they are subject to such trading restrictions.

### 2.1.3.2 Organisation

From an organisational standpoint, EADS **Legal Affairs**, in coordination with the Divisions' and BUs' legal departments, is responsible for designing, implementing and overseeing the policies and processes aimed at ensuring that EADS' activities abide by all applicable laws and regulations. Teamwork amongst all the legal players is aimed at ensuring consistent and comprehensive legal processes in compliance with national requirements. Corporate Legal Affairs is also responsible for overseeing all litigation affecting the Group, as well as for the legal safeguarding of the Group's assets, including intellectual property.

Extended networks of professionals (e.g. intellectual property...) located close to operational players drive legal compliance activities. These professionals are capable of handling the requirements of the many jurisdictions that are relevant to EADS, not only in its "home countries" but abroad as well.

The COO Finance is the **Insider Trading Rules Compliance Officer**.

The **Corporate Secretary** with the support of Legal Affairs departments also plays an essential role in the setting up and administration of EADS Corporate Governance procedures as well as legal documentation underlying delegation of powers and responsibilities.

Finally, all those activities are audited by the **Corporate Audit department** which consists of a team of dedicated professionals who are familiar with the requirements and challenges of the Company's international business.

### 2.1.3.3 Performance and Best Practices

Whatever the legal environment they are subject to, BUs are extremely vigilant in monitoring legal risks. They constantly ensure that regulations are applied and track any infringement risks so as to prevent them. This is based on basic processes:

- **Training and awareness:** a preventive approach is based on the combination of Company policies and cultural values supported by solid infrastructure for legal compliance, training initiatives and general employee awareness actions as well.
- **Identifying and mitigating legal risks:** Whatever the source of the legal compliance risk may be, EADS takes responsibility for finding the facts and analyzing the applicable laws; measures are then taken to deal with the situation in a proactive manner.

Sharing of information, especially within the CSR network and the community of legal professionals is designed to help the Company learn from mistakes, if any, thus using its experience to continue raising the bar in its processes.

The **EADS Insider Trading Rules** are regularly updated in order to take into consideration recent changes in European regulations as well as to ensure EADS adherence to best-in-class corporate governance standards. The EADS Insider Trading Rules are provided to the relevant Market Authorities for verification and confirmation.



	2006	2005	2004
Court decisions regarding cases pertaining to antitrust and monopoly regulations	None	None	None
Descriptions of policy, procedures/management systems, and compliance mechanisms for preventing anticompetitive behaviour	i) EADS Code of Ethics including but not limited to all relevant provisions of Code of Ethics relating to compliance with competition law; and ii) Regular legal risk analysis as issues come up.	i) EADS Code of Ethics including but not limited to all relevant provisions of Code of Ethics relating to compliance with competition law; and ii) Regular legal risk analysis as issues come up.	i) EADS Code of Ethics including but not limited to all relevant provisions of Code of Ethics relating to compliance with competition law; and ii) Regular legal risk analysis as issues come up.

Scope: EADS.

## 2.1.4 Corporate Governance Standards

Compliance with Corporate Governance standards is an area of specific focus at EADS.

In addition to being a Dutch registered company, EADS is listed in multiple countries. This implies the necessity for EADS to comply with different regulations.

As a consequence, the Group is permanently monitoring the laws and regulations, as well as the current market practices in the countries it is based in, in order to ensure its conformity with the evolution of Corporate Governance in general. Governance practices are developed and monitored to fulfil the Board responsibility towards shareholders, to oversee the work of management in the conduct of the Company's business and to seek to serve the long-term interest of shareholders.

EADS, in its continuous efforts to adhere to the highest standards, applies the provisions of the Dutch Corporate Governance Code ("**Dutch Code**"), which includes a number of non-mandatory recommendations and, if the case arises, the reason for non-application of such provisions are explained, in accordance with the Dutch Code's "Apply or Explain" principle. The few non-compliance matters with regards to recommendations of the Dutch Code mostly result from EADS being aligned with general market practices in the countries it is listed in and its particular governance structure, as laid down in its Articles of Association.

In 2006, the EADS Board of Directors continued to uphold the driving principle of conformity with applicable law and the Corporate Governance principles in the countries relevant for the Company, while also enhancing its focus on Corporate Governance best practices.

### 2.1.4.1 Policy

- "EADS is determined to set the standard of excellence in the field of Corporate Governance. EADS is committed to meet and even exceed social, legal and statutory requirements to ensure transparent management and recording.
- EADS commits to providing the most accurate and reliable information and records in all decision-making processes and business relations, both inside and outside EADS. To achieve the highest standard of reliability, EADS continuously improves its Internal Control and Risk Management procedures."

### 2.1.4.2 Organisation

See "Part 1/Chapter 2 Corporate Governance".

## 2.2 Sustainable Growth

EADS supplies some of today's most advanced technology in the field of aerospace and defence. EADS strives to meet the customers' requirements for competitive, cost effective and innovative technology. The Group's development relies on its

ability to deliver products and services that meet customers' requirements. Sustaining this development requires focus on the product quality, continuous innovation and the best supplier management.

### 2.2.1 Product Quality and Customer Satisfaction

As an industry leader in aerospace and defence, EADS is constantly striving to build upon its solid reputation for excellence in its products, processes and people. With a focus on continual improvement and on building customer confidence by improving On-Time and On-Quality Delivery ("**OTOQD**"), EADS demands that every area of its operational business challenges and improves its levels of Quality and Operational Excellence, internally and throughout the supply chain.

#### 2.2.1.1 Policy

- *"EADS is fully committed to achieving the highest levels of customer satisfaction, driving continuous improvements in the quality of its products, processes and people and deploying the most demanding Quality Management Systems."*
- *EADS actively seeks key customer feedback through a structured Group-wide process of Customer Reviews."*

#### 2.2.1.2 Organisation

The Chief Quality Officer ("**CQO**") is in charge of stimulating, coaching and supporting the BUs to implement continual improvements in operational level OTOQD performance and to maintain and improve customer confidence in EADS.

In particular, he chairs an EADS Quality Council with senior level representatives from each BU to agree actions and priorities and to drive OTOQD deployment in all BUs.

CQO animates, supports and drives a network of BU operational level experts to ensure that the EADS Improvement Programme ("**EIP**") is tuned directly to the needs, priorities and maturity of each BU.

He also represents EADS in relevant Quality, Standards and Regulatory bodies at both National and International level commensurate with the status of EADS as a global aerospace and defence company.

#### 2.2.1.3 Performance and Best Practices

A major initiative was launched to deliver enhanced Customer confidence and satisfaction through driving operational improvements in those industrial processes which contribute to achieving OTOQD of products and services to end customers. In 2006, the EADS Improvement Programme was deployed throughout all EADS BUs.

This EIP programme acts on four key areas for improvement:

##### Customer Confidence

A common methodology was defined in early 2005, with a view to deploying it consistently throughout the Group. This Customer review process ("**CRp**") methodology is based on a structured series of interviews targeting the key decision makers at EADS' strategic customers. These interviews are performed by the BUs' top management.

The goal is to measure the level of customer confidence, which is more important than satisfaction in determining its loyalty. EADS aims to assess and to continuously improve the relationships between the Group and each of its customers. Improvement plans result from these interviews, and the interviewer is responsible for reporting the progress of these plans to the interviewee.

In 2006, a total of thirteen CRps had been launched from the beginning of the programme. Three had totally completed the last "action plan" phase and are planning to start a second

round in 2007. Six have their reporting and analysis phase completed and have entered into the “action plan” phase.

More complex CRps take place for Defence customers. They are conducted at national level rather than at BU level, governments’ procurement activities being by nature cross BUs. A Defence CRp was launched in each of the four EADS home nations.

### Programme & Risk Management

In order to tackle and improve OTOQ delivery, EADS launched a group wide project in 2006 to improve Programme & Risk Management (“P&RM”) performance.

A common P&RM framework is being developed by a cross-functional & cross-Divisional team to standardise and modernise the key processes and tools for managing complex projects and programmes, to provide a common EADS P&RM language and terminology, to provide streamlined KPIs, reports and programme reviews, and to upgrade the approach to identification, training & development of programme managers in EADS.

Some of the key processes being addressed are:

- Risk & Opportunity Management to facilitate proactive identification, tracking and mitigation of risks, and extending this to identifying and capitalising on opportunities to improve programme performance.
- Independent phase reviews to carefully check the maturity of a programme at each of a series of defined phases before passing to the next phase.
- Integrated real-time multi-programme planning & execution to plan and optimise efficiency of the resources (people, parts, materials, etc.) across all programmes.
- Technical and Technology Readiness Level Assessments to take an independent expert ‘deep-dive’ look at selected programmes to assess the health of the programme and fidelity of the planning based on the technical maturity of the product or technology.
- Simplification of the audits, assessments and reviews that programmes are subjected to, looking at re-use of data to avoid asking the same questions over and over again for different reviews.
- Career development and succession planning strategies for programme management to deliver people with the right mix of multi-discipline, multi-functional and trans-national experience, training and skills.

- Forums for sharing and spreading Lessons Learned and Best Practices and fostering continuous improvement of P&RM practice & processes.

### Lean Operation

Lean Operation in EADS is driving continual improvement in:

- The elimination of non value-adding activity
- Forging closer links throughout the supply chain
- Ensuring processes are robust in all operational workflows

All Divisions in EADS have been actively working in Lean based performance improvements in the manufacturing areas for several years. EADS is now focused on leveraging these individual improvement actions to accelerate deployment across the Group by actively spreading best practices and on extending the scope to develop Lean Supply Chain improvements.

In order to effectively drive this, EADS has created a Lean Operations council comprising senior executives from each Division having both the expertise and authority to drive lean based improvements within their respective Division.

### DRIVER and EADS Black Belt

EADS now equips managers with an “Improvement Methodology and Toolkit”. This is the purpose of the “DRIVER” methodology defined in 2005, along with the complete training syllabus (more than 10 training modules and 30 tools). DRIVER is the EADS specific Improvement methodology. The corresponding training can be delivered in the format of “EADS Silver Belt” (2.5 days), “EADS Green Belt” (one week) or “EADS Black Belt” (four weeks). To be recognised as Qualified Improvers, EADS Black Belts must complete, on top of their training, an improvement project that can deliver measured benefits in terms of On Time on Quality Performance, costs savings, Customer Confidence or a mixture of the three elements.

A learning management system (“LMS”) supports and monitors the programme deployment, enabling also candidates to share best practices and use trans-BU networks for mutual support.

At the end of 2006, more than 200 people has been trained as EADS Black Belts in the sessions held around EADS Divisions and BUs. More than 50 EADS Black Belts have achieved their accreditation.

## 2.2.2 Sustaining and Protecting Innovation

### 2.2.2.1 Innovation Strategy

Innovation is one of the key areas EADS is focusing on as growth driver for the future. With the appointment of a Chief Technical Officer (“CTO”), who is also a Member of the EADS Executive Committee, the company has invigorated the innovation process.

The CTO is implementing a new technology strategy with the development of a technology portfolio, which is fully aligned with the business strategy of the company.

EADS continues to establish programmes of cooperation with universities and scientific organisations in its home countries and abroad to develop cooperation and to take advantage of competencies wherever they exist.

#### Policy

*“EADS’ innovation strategy aims at increasing competitiveness through continuously improving quality of services and products as well as efficiency of processes.”*

#### Organisation

Following the appointment of the EADS CTO in April 2006, innovation, and particularly technology innovation, has been strengthened, with greater focus being put on aligning the Group’s Research & Technology (“R&T”) activities with the company’s business strategy.

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

The CTO has a wide role. In addition to R&T, he is responsible for Group transversal technical processes, such as Systems Engineering and common tools for Product Lifecycle Management. He also carries out specific technical assessments on behalf of the CEOs and the Executive Committee. The responsibility for corporate Information Management (IM) has been passed from Finance to the CTO’s organisation (from February 2007, the CQO is also reporting to the CTO).

The CTO intends to foster a culture of innovation among EADS employees. Consequently, the CTO and Human Resources are building the ‘EADS Expert Initiative’ to identify technical experts and to offer them career

opportunities similar to those of managers whilst remaining on a technical career path. In further initiatives, an EADS Innovation Hall of Fame is being created. This will acknowledge and honour those responsible for generating the highest number of patents (‘The Great Inventors’), those who are most effective in bringing inventions to the business (‘The Great Innovators’) and workers with unique skills (‘The Great Craftsmen’).

The EADS **Executive Technical Council** (“ETC”) made up of the technical directors of the Divisions and chaired by the CTO, is responsible for ensuring alignment with the Group’s technology strategy and implementation through the Group R&T road map. The ETC ensures that a balance is maintained between the top-down strategic guidance and bottom-up expertise, creativity and responsibility. It meets regularly to discuss and decide forward strategies and it identifies synergies.

The **EADS Innovation Works** (formerly called Corporate Research Centre) are in charge of the corporate research laboratories that guarantee the Group’s technical innovation potential with a focus on the long-term horizon. Driven by the EADS R&T strategy, they identify new technologies that will create value and competitive advantages. The EADS Innovation Works have two main sites in Paris and Munich and employ approximately 600 people including doctorates and university interns.

EADS – represented by EADS CASA, the Spanish Minister of Industry, Tourism and Commerce and the President of the Regional Government of Madrid have signed a co-operation agreement in Madrid in March 2006 to create the *Fundación para la Investigación, Desarrollo y Aplicación de Materiales Compuestos* (Foundation for Research, Development and Application of Composite Materials – “**FIDAMC**”). Its objective is to be a centre of excellence in research, development and application of composites, especially of carbon fibre materials. The FIDAMC will be a centre with a multi-sector orientation, with headquarters to be located near the EADS-CASA site in Getafe near Madrid. The Foundation is expected to provide employment for about 40 engineers, scientists and laboratory personnel, with the possibility to reach the number of 75 positions for highly qualified technicians in the mid-term. This will contribute significantly to the reinforcement of the aerospace sector in Madrid. The centre will develop projects with a highly technological content in which, according to an “open perimeter” philosophy, companies from several sectors may take advantage, such as the aerospace, automotive and robotics industries.

Proximity centres are maintained in Toulouse, Nantes (opened in 2005) and Hamburg to support the knowledge transfer to BUs in these locations. A liaison office is operating in Moscow, which facilitates relations with Russian scientific institutes. EADS opened a R&T centre in Singapore and also launched a centre in Spain.

The **R&T Network** coordinates the shared research and technology activities, which involve several BUs and the EADS Innovation Works. The Network is structured around a total of 18 technology domains called Research and Technology Groups (RTG's), which are of common interest, such as Materials and Structures, Electronics, Navigation and Control as well as Image Processing. The Network sets up a common R&T programme and facilitates the circulation of information and research results.

The existing EADS R&T Network operates as a cluster of five **Global Innovation Networks** ("GIN"). The RTGs of the Network are operated through relevant GIN (for example, the RTG's Metallic Materials, Composite Non-Metallic Materials, Structures and Advanced Manufacturing are operated by the GIN "Optimized Platform Structures").

All Corporate and Divisional R&T activities are merged into a single, comprehensive EADS R&T Group Plan. The portfolio of the EADS Group R&T plan is aligned with the EADS R&T Strategy, which is in turn oriented by the Strategy of the Group.

GIN's executives, under the responsibility of the CTO's Deputy and Chief Operating Officer Innovation, are going to play a key role by reinforcing the ties between corporate R&T and the Divisions. The GINs are establishing an R&T plan in their particular technology fields together with the R&T Groups of the EADS R&T Network and aligned with the EADS technology strategy. GIN's will be in charge of the deliverables and will focus on the assurance of the deliveries of selected key-projects.

Demonstrators which integrate single technologies into solutions will play an important role in the future R&T Group Plan. These will aim to reduce the time required to introduce new technologies within a product or process.

Members in the support and R&T enabler groups of the CTO's organisation ensure that R&T is an integral part of the business, by maintaining strong links with the business development organisation, human resources, finance, intellectual property, standardisation and communication.

The corporate EADS Innovation Works and the EADS R&T community in the BUs maintain and expand established

academic research partnerships with leading universities and high-tech engineering schools by employing thesis students, post-graduate interns and doctorate candidates as well as by contracting specific research projects.

See also "Part 1/1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations".

### Performance and Best Practices

Continuous innovation will be even more important in the future. Innovation cycles are shortening and new competitors are emerging in all fields of EADS business. To be leading the markets in the future, EADS will always need to be ahead with innovative solutions.

Technological innovation programmes are managed in conjunction with the EADS R&T Network and the EADS Innovation Works as well as through a strong network of top experts in the BUs. EADS aims to make better use of available resources by interacting even more with external scientific and applied research organisations. Such cooperation allows EADS to leverage the resources available in these organisations, which in turn benefit from EADS' systems knowledge.

(See also "Part 1/1.1.3.6 Research and Development Expenses").

### Advanced Technology Initiative

Activities of the Advanced Technology Initiative ("ATI"), launched in 2004, continued throughout 2006 as a cross-company drive to increase efficiency in innovation and R&T. ATI involves benchmarking and forecasting of technologies and gives answers to the questions: What is the scope of technologies inside EADS? How good is EADS at these technologies compared to the competition? What will be key technologies in the future? External expertise is included to provide perspective and vision. Based on the findings, action plans are developed to improve the global technology strategy by correcting any deficiencies and by optimising the allocation of resources. ATI has already led to recommendations and implementations for managing the technological risks and for ensuring technological leadership.

### EADS Corporate Foundation for Research

The Corporate Foundation for Research (Fondation d'entreprise EADS) was created in France in September 2004 to promote multidisciplinary research in air and space technologies and foster exchanges between researchers in government, private industry and higher education research institutes.

With a total endowment of €24 million over 5 years, the Foundation is now in its third year and firmly established. It has provided grants for 37 doctoral and 19 post-doctoral fellowships, and 18 research projects were financed.

One of the Foundation's goals is to build up ties between the public research community and the worlds of industry and education. To this end, it is awarding each year three awards in the field of Industrial Research Cooperation, which is promoting exemplary men and women scientists who demonstrate high standards of excellence in their research work in collaboration with the industrial sector. Every year, it is also awarding six Best Thesis awards in different domains of mathematics, physics and computer science. To maximize interdisciplinary studies, representatives from all of the EADS Divisions sit on the administrative board and a third of the members are representatives from the outside research community in France, such as the national aerospace research centre ONERA, the research agency CNRS, the Atomic Energy Commission CEA and major universities.

The EADS Corporate Research Foundation also supports other organisations with which it shares common objectives, namely the Institute for Higher Scientific Studies (IHES), which is dedicated to advanced research in mathematics and theoretical physics, the French Aeronautics and Space Research Foundation, and the C. Génial Foundation, which helps to propagate scientific and technical culture, particularly amongst young people. In this context, the Foundation also supports the "Science in Schools" initiative aimed at creating a new image for science teaching in middle schools, grammar schools and foundation courses.

The Foundation also works to promote gender equality as a partner in the Irène Joliot-Curie prize programme. This prize is bestowed on women in recognition of outstanding achievements in public or private research, and is intended to encourage more young women to study science and technology and to boost the standing of women within the French research community. The Foundation also supports public health projects, which frequently use technologies that have originated in the aerospace sector. December 2006 saw the third edition of "Envol Recherche" day, when the various protagonists of the Foundation gathered for round-table debates on the scientific challenges in the aerospace, defence and space industries and for the prize-giving ceremonies.

Other initiatives, including foundations, are contemplated in Germany, Spain, the U.K. and the U.S. to improve links with public research institutes and universities.

### **Bauhaus Luftfahrt (an Aviation Research Think Tank)**

EADS and the government of the German state of Bavaria joined forces with three German aerospace companies to fund Bauhaus Luftfahrt, a think tank for creative and interdisciplinary research activities in the field of aeronautics. Bauhaus Luftfahrt will enable EADS to consider new, groundbreaking courses of action in the field of aeronautics by adopting an innovative approach to future-oriented, visionary solutions. A total of 20 engineers and scientists had joined the Bauhaus Luftfahrt team in time for its one-year anniversary in November 2006.

### **Academic Partnerships**

EADS regards its relationship with the academic world as a priority and is developing this with vigour by reinforcing its cooperation with academic laboratories through deep and targeted relationships through establishing a common structure with several top-level academic partners.

INNO'CAMPUS is operated together with the renowned École Normale Supérieure ("ENS") de Cachan, near Paris, by co-locating some EADS researchers at laboratories of the ENS, by students using EADS Innovation Works facilities and by jointly conducting seminars and workshops in the structures simulation and structures behaviour domains. In addition, a professorship in "Advanced Computational Structural Mechanics" was established at the ENS, with financing supplied by the EADS Corporate Foundation for Research.

TECHNO'CAMPUS was established together with Airbus and four high-tech engineering schools in Nantes: the École Centrale, École des Mines, Polytech & ICAM. The location was selected because of the high scientific level of public research close to two Airbus production plants. TECHNO'CAMPUS is actively supported by the French state, the region of "Pays de la Loire" and the city of Nantes. It gathers students, researchers and engineers from the schools, the Innovation Works and Airbus in joint projects to research thermoplastic composites technologies and to develop specific non-destructive testing methods.

The EADS Innovation Works and the Ecole Polytechnique, a state-supported institution of higher education and research and the most prestigious engineering Grande Ecole in France, together with the French National Centre for Scientific Research (Centre National de la Recherche Scientifique, CNRS) engaged in a new partnership in November 2006 by signing a framework agreement for scientific research in the fields of aeronautics, space and defence. This agreement bears the name of "AIRIX" in reference to these fields and increases the scientific and technical interactions between the researchers of the publicly-owned establishments and those of the industrial

group in the areas of modelling, physics and associated mathematical analysis. This agreement is acting as an accelerator of the transfer of knowledge and results between the academic and the industrial worlds.

### 2.2.2.2 Protecting Innovation: Intellectual Property

Intellectual Property (“IP”), such as patents, trademarks and know-how, plays an important role in the production and protection of EADS technologies and products. The use of IP rights enables EADS to remain competitive in the market and to manufacture and sell its products freely.

#### Policy

- *“One of EADS’ most valuable assets is its intellectual property which includes patents, trade secrets, trademarks, copyrights and other proprietary information. It is EADS’ policy to establish, protect, maintain and defend its rights in all commercially significant IP and to use those rights in responsible ways.*
- *EADS also respects the valid intellectual property rights of others and will not reproduce or use software or other technology licensed from other suppliers except as permitted by the applicable license agreement or by law.”*

#### Organisation

The general management of IP in EADS is conducted through an IP council led by the EADS Group IP Head reporting to the COO Innovation, with a dotted line to Corporate Legal Affairs. Executives responsible for IP at the main subsidiaries sit at this council.

Every year, a meeting of the network of those responsible for IP at the entities of the Group is held to explain the EADS’ IP strategy and policy. The IP policy and the rules are defined, in accordance with the Innovation global strategy, by this Council which meets approximately every two months.

EADS also promotes training about IP matters. For example, a one-day training about IP is included in the Corporate Business Academy (“CBA”) training programme for the experts.

Each of the subsidiary companies of the Group owns the IP which is specific to its particular business and has been generated by this subsidiary. Where IP is of common interest throughout the Group, the subsidiary that generated it may issue a license allowing its use elsewhere (respecting the interests of the other shareholders when appropriate). EADS also owns IP directly or under license agreements with its subsidiaries. EADS centralises and coordinates the Group’s IP portfolio, participates with the subsidiaries in its management and promotes licensing of common IP between the subsidiaries. EADS controls the protection of its IP made in the strategic countries.

EADS also ensures that procedures are in place to protect the confidentiality of the Group’s IP and to ensure contractually that third party rights are protected (in the case of joint ventures). In this respect, suppliers’ contract terms and conditions are currently being strengthened and adapted when dealing with countries with weaker IP laws. The sourcing strategy is also to integrate a segmentation of the contract in order to minimize the risk of industrial espionage and counterfeiting.

#### Performance and Best Practices

To increase the added value of the Group, the team of the EADS CTO promotes the sharing within the Group of all the knowledge of the BUs and the sharing of resources, skills and research means and budget to develop new knowledge, while respecting existing contractual and legal frameworks.

For example, all the contracts between BUs of the Group concerning shared R&T must have provisions allowing for the flow of knowledge (EADS R&T Network rules).

In 2006, the EADS IP portfolio comprised approximately 5,400 inventions (approximately 4,900 in 2005), which are covered by nearly 18,400 patents throughout the world.

	2006	2005	2004
New inventions filed (some of which covered by several patents)	792	586	521
EADS patents portfolio (year end)	18,366	15,036	13,515

Scope: EADS.

## 2.2.3 Supplier Management: Fostering a Mutually Beneficial Relationship with EADS' Suppliers

The EADS Sourcing Vision is to deliver competitive advantage by winning, integrating and developing relationships with the world's best suppliers. Its Sourcing Strategy is designed to support this vision.

### 2.2.3.1 Policy

The EADS BUs Procurement Policies reflect the following statements:

- *“Suppliers represent a high proportion of the value of EADS’ products, and play an important part in customer satisfaction. As such, EADS endeavours to integrate them fully in an ethical way of doing business.*
- *Fostering a mutually beneficial relationship with suppliers, EADS’ sourcing principles require all suppliers to be responsible and to implement its standards and requirements across all levels of the supply chain.*
- *EADS is committed to long term relationships and partnerships with its suppliers, in particular in the engagement in the development of technological know-how”.*

### 2.2.3.2 Organisation

#### Sourcing Strategy

EADS Corporate Sourcing is the strategic architect of sourcing functions and provides overall orientation for sourcing activities across the Group, in particular regarding the key elements of the Sourcing Strategy, which are Procurement Marketing and Global Sourcing, Joint Sourcing, Supplier Evaluation and Risk and Opportunity Sharing:

- **Procurement Marketing and Global Sourcing** aim to identify the best potential suppliers worldwide and to evaluate them with regard to their capabilities and their certifications. Procurement marketing is becoming increasingly important as EADS targets new global supply markets to support EADS’ Global Industrial Development;
- **Joint Sourcing activities** allow purchasing power to be leveraged across EADS. A group of Lead buyers bundles procurement volumes of selected material groups for common negotiation. The Joint Sourcing also allows all EADS BUs to use a common EADS contract per supplier. In order to better integrate the internal customers into the procurement process and to increase EADS group leverage in Sourcing, the group of Lead buyers has been strengthened in

2006: the set of procurement commodities has been reorganised and “Enhanced Lead buyers” have been nominated;

- The EADS **Supplier Evaluation and Development** process guarantees that suppliers’ performances are regularly evaluated. Suppliers can expect that the same process and the same criteria are applied by all BUs: Commercial, Logistics, Quality, Technical and Customer Support. Evaluations are shared with suppliers as a basis to discuss further improvement and development needs and plans. With regard to the high proportion of sourcing required for products and the complexity of the procured systems, equipment and structures, EADS favours long-term, mutually beneficial, reliable and stable relationships with key suppliers. Consideration for partnerships is limited to suppliers who continuously show excellence in their performance, who can demonstrate a credible long term interest and who are able to support their business interest with their own developments and investments. It is a principle for such partnerships that suppliers are involved and integrated at the early stages of product development;
- Both **business risks and opportunities** should be adequately shared with suppliers. Procurement Policies of EADS BUs address all typical business risks, including risks attached to CSR, and suggest how they should be dealt with in EADS’ contractual agreements. Procurement Policies also set out the principles and guidelines for conducting business with current and prospective suppliers. These guidelines describe how partnership relations should be handled in an equitable manner in the interest of all parties concerned and how disputes should be dealt with professionally and as quickly as possible in accordance with the agreed partnership arrangements.

#### Sourcing network

Each EADS Division and BU has its own sourcing function.

The five EADS Divisions’ Chief Procurement Officers compose the **Chief Procurement Officers Council (“CPOC”)** which is chaired by the EADS Chief Procurement Officer. This Council is responsible for implementing the EADS Sourcing Strategy within each Division of EADS.

The Chief Procurement Officers have organised Sourcing networks in order to coordinate strategic topics across EADS Divisions. Listed amongst these strategic topics, CSR is managed by a dedicated Sourcing CSR Network.

**The Sourcing CSR network**, pursues the objective of formalising the EADS CSR Sourcing management processes and associated documentation, in compliance with the EADS Code of Ethics, values and policies. This Network is composed of focal points in each Divisions' Procurement organisations and is coordinated by EADS Corporate Sourcing.

### 2.2.3.3 Performances and Best Practices

#### Sourcing context in 2006

With three fourth of its revenues sourced from external suppliers, efficient and effective supplier relationship management is a key factor for EADS' success. For this, EADS concentrates on its major suppliers. EADS' top 50 suppliers already account for 43% of the sourcing volume and the top 250 suppliers account for 74%.

Complex systems and equipment account for 39% of EADS procurement. Structures, material and product-related services also account for 38%, while non product related material accounts for 23%.

While EADS likes to see itself as an important customer for its key suppliers, EADS wants them to be independent and at the edge of technological development. On average, EADS suppliers make no more than 10% of their revenues from EADS.

Most of EADS' sourcing volume is provided by large companies. The remaining Sourcing volume (15%) is spread across a large number of small and medium sized enterprises, as per the European Commission definition, i.e. with less than 250 employees or less than €50 million turnover.

Sourcing activities focus on the EADS home countries France, Germany, U.K. and Spain, and on the U.S.. Sourcing outside the E.U. and North America is still limited. However, EADS sees its global sourcing activities increasing to better exploit opportunities and to support sales.

Most of EADS' suppliers are currently located in the E.U. (77%) and North America (21%), regions in which social, economical and environmental practices are well regulated by applicable norms and laws. EADS Sourcing contractual terms request that these suppliers shall comply at any time with laws and regulations on economical, environmental and social standards and anticipate or at least make their best endeavour to anticipate forthcoming changes in these standards.

To reinforce supply chain compliance to EADS CSR related requirements, EADS tier 1 suppliers are contractually bound to flow-down these requirements to tier 2 suppliers.

Procurement policies also reflect the principles of the UN Global Compact. As a member of the UN Global Compact, EADS has accepted responsibility to apply these principles in its supply chain and to require its suppliers adhere to common standards in the areas of human rights, the environment and employment.

#### Influence of the Global Sourcing

As EADS targets to increase global sourcing volumes in countries where existing laws and regulations may not fully cover EADS CSR requirements, procurement contractual terms for these domains need to be written in a more extensive way. Therefore, EADS is on one side engaged in a process for embodying additional CSR requirements into procurement contracts and on the other side EADS is organising supplier CSR performance measurement.

#### CSR activities

##### 2006 CSR project

In 2006, the Sourcing CSR Network has flowed-down the EADS code of Ethics into different tools such as a CSR Supplier Code, a CSR Supplier evaluation Questionnaire, a CSR contractual clause and various metrics adapted to measure the compliance of Suppliers to EADS CSR policies. This tool set has been validated by the Chief Procurement Officers, and its implementation will be launched once approved and adapted by each Division to fit into its own Sourcing processes.

Due to the decisions made in the frame of EADS cost saving projects, the number of EADS Tier 1 suppliers is due to be strongly reduced in the next years. The reorganisation of the supply base around a reduced number of Tier 1 Suppliers will go together with a renewed content of the procurement contracts. When starting, this revision of contractual clauses should give EADS a good opportunity to deploy the CSR Sourcing tool set in the same time frame.

##### Sourcing Contractual terms related to CSR

The decision to further develop CSR requirements is clearly taken and EADS has already well addressed some key elements of CSR in the sourcing contracts.

The various CSR aspects are already considered through EADS Sourcing Risk and Opportunities Management ("ROM") which recommends contractual guidelines for the key contractual chapters. These guidelines are published in the EADS Sourcing Information Tool which explains the principles for drafting contracts, disclaims the typical contractual clauses and gives practical comments for the use by the buyer. For each domain,

the requirements are contractually cascaded on to sub-tier suppliers.

For example, regarding environmental responsibility, principles for drafting contracts state that: “The purchase contract should provide that the supplier shall comply with all applicable laws, regulations, etc. as well as all commitment to which EADS has subscribed (e.g., Global Compact initiative) and end-customer requirements, in particular: (1) Suppliers are asked to support a precautionary approach to environmental challenges; (2) Undertake initiatives to promote greater environmental responsibility; and (3) Encourage the development and diffusion of environmentally friendly technology.” The recommendation to the buyer also states that EADS encourages suppliers to implement an environmental management system complying with international standards such as ISO 14000 or EMAS.

Moreover, in terms of Compliance with EADS Ethical commitments, it is recommended that the contract includes EADS key engagements such as the support, respect and protection of international human rights within the supplier’s sphere of influence; the respect of the freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced and compulsory labour; the quality of working conditions such as but not limited to, appropriate level of remuneration, and protection of health and safety of the employees.

### BU’s best practices

In addition to the top-down approach described above, CSR in Sourcing has been well progressing in 2006 as shown through the following examples:

#### Airbus

Airbus now addresses the product’s environmental performance throughout its entire life cycle. In 2006, the sites and the products of Airbus have been certified against environmental standard ISO 14001. The supply chain plays a strategic role in fulfilling that objective, hence, the Airbus environmental project received a full support from Airbus Procurement. The following main milestones took place in 2006:

- a) The head of Airbus Procurement sent to all Procurement personnel a Statement of Intent about Procurement environmental Policy in February 2006.
- b) An area in the intranet pages of Airbus has been dedicated to the Environmental policies of Airbus Procurement. Airbus Procurement staff was also invited last year to go through e-learning modules in order to learn how to introduce Airbus environmental requirements into contractual agreements.
- c) Later in 2006, the “Airbus Environmental pocket-guide” was distributed to all Procurement employees in Airbus. In this Guide, the CEO of Airbus presents the Airbus environmental challenges and the head of Procurement explains the Environmental Commitment and Objectives for Procurement, the Golden rules for environmental contribution. This Guide shows also the organisation in charge of Environmental Management within Procurement.
- d) The Suppliers have been given online access to the Airbus environmental requirements in a specific chapter of the “Airbus Supplier Portal” in internet.
- e) Various external communication events have been organised, in order to raise awareness about environmental issues within the Supply Chain.

#### EADS Astrium

The CSR requirements are now considered in the Supplier pre-selection process as part of the basic Supplier requirements which are prepared in order to ensure in particular:

- Compliance to EADS code of Ethics and CSR policies
- Awareness and demonstration of compliance with applicable statutory and regulatory requirements: WEEE, RoHS, CE Marking (which is a mandatory European marking for certain products to indicate conformity with European applicable standards) etc.

The Environmental Health and Safety requirements of EADS Astrium are presented in a dedicated Intranet page for the attention of EADS Astrium procurement teams.

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### Key Performance Indicators

All figures below have been calculated using new euro-dollar exchange rates. Figures for previous years have been recalculated accordingly (2006: 1.2556; 2005: 1.2441; and 2004: 1.2438).

Importance of sourcing outside of EADS In percentage of revenues	2006	2005	2004
	74%	70%	63%

The increase in value of Sourcing is mainly influenced by A380 production ramp up which started ahead of A380 deliveries, temporarily increasing sourcing volume vs. sales volumes.

Sourcing volume: breakdown by country for top 10 countries In percentage of total sourcing volume	2006	2005	2004
France	32%	31%	31%
Germany	21%	22%	23%
U.S.	20%	22%	21%
U.K.	14%	12%	12%
Spain	4%	4%	4%
Italy	2%	1%	2%
Netherlands	1%	1%	1%
Belgium	1%	1%	1%
Canada	1%	1%	1%
Switzerland	1%	1%	1%

The geographic Sourcing breakdown is stable and centred on Western countries.

Purchasing breakdown by Geography In percentage of total purchase	2006	2005	2004
Europe	77%	75%	77%
North America	21%	23%	21%
Rest of the World*	2%	2%	2%

Scope: EADS.

(\*) Including < 1% in non-OECD countries.

## 2.3 Environmental Care

EADS' environmental policy embraces all phases of the product life cycle, from design, manufacturing, including environmental impact of its sites, operations and maintenance to the end of life. It seeks to ensure that each of its BUs complies with the laws and regulations of each country in which it operates. EADS is subject to numerous international, European, national,

and local environmental laws and regulations which concerns emissions into the environment, in particular discharges to surface and sub-surface water, elimination and treatment of waste, consumption of natural resources, soils, noise and other nuisances, landscape, etc. as well as those related to permits to operate.

### 2.3.1 Policy

#### “Minimizing environmental impacts of EADS” activities

- EADS is fully conscious of its operations’ impact on the environment and therefore considers that monitoring and reducing those impacts is fundamental for its approach to CSR.
- EADS is committed to continuous improvement of its environmental impact, beyond the simple fulfilment of legal obligations. It is EADS’ subsidiaries and sites’ role to ensure compliance with the laws and regulations of the countries in which they operate. The Group encourages environmental certification of its manufacturing processes.

#### Taking into account environmental impacts of products along their life cycle

- Improving environmental performance of products throughout their lifecycle is of significant importance for EADS and its customers.
- EADS encourages the active consideration of environmental criteria, through implementation of Eco-Design approaches, in all phases of its products’ life cycles in order to improve the environmental performance of its products.”

### 2.3.2 Organisation

Limiting environmental impacts of operations is strongly driven by the business. The management of environmental aspects of Group operations is, as result the responsibility of the BUs and sites. Moreover, each of EADS’ businesses is strictly controlled and audited by relevant authorities, in respect of manufacturing processes and product certification. Customers, both civil and governments increasingly include environmental criteria in their specifications.

Many EADS Divisions and BUs have successfully implemented environmental management systems and work towards a continuous improvement of their respective products’ environmental performances.

In addition, some coordination at corporate level is organised in order to implement a periodic follow up on the Group’s environment performance, to promote a cross-fertilisation of best practices and consistently anticipate any new relevant regulatory framework that may apply to the Group.

Currently the environmental reporting at Group level is provided by CQO. It is based on networks that already exist from the founding companies of EADS. In order to enhance effectiveness of the environmental policy, to define guidelines and relevant action plans, as well as to provide visibility, EADS decided to further develop an environmental network

coordinated by the Group leading companies in managing environmental matters. Particularly, most of EADS’ European sites are now ISO 14001 certified, which provide a solid basis for developing an enhanced Group environmental approach.

Within the industry; EADS is already participating in environmental working groups of industry organisations such as the GIFAS in France, BDLI in Germany and the SBAC in the U.K. For example, the Environment Committee of GIFAS is chaired by an Airbus representative. EADS and Eurocopter also participate to this committee. In 2005, the committee defined and implemented a legal and regulatory tracking system to the whole benefit of the sector in France. With the view to improve the sector communication, the committee initiated in 2006 an inventory of the industry best practices in order to promote such practices.

At European level, the Environmental Committee of ASD is chaired by Airbus.

On a worldwide basis, the ASD is the European member ICCAIA (International Coordination Council for Aerospace Industries Association). The vice-chairman of the environmental committee (Aircraft Noise & Engine Emissions) of ICCAIA is an Airbus representative, as per the ICCAIA by-laws, he will automatically become Chairman in 2010.

### 2.3.3 Performance and Best Practices

#### Environmental Management ISO 14001/EMAS

EADS encourages environmental certification of its industrial sites. As of 31<sup>st</sup> December 2006, 52 sites (29 as of 31<sup>st</sup> December 2005) were either ISO 14001 certified or EMAS registered, representing more than 70% of the total workforce of EADS. New certification processes were completed at Airbus but also within EADS Military Aircraft Systems as well as within the Astrium Division. This important increase in the number of certified sites will allow the EADS Group to strengthen its approach to environmental management.

In 2006, Astrium Space Transportation achieved its ISO 14001 certification objectives. The initial certification of the French sites was approved in November 2006 and followed the successful re-certification of the German sites a couple of months earlier. It marks the start of a continuous improvement process to which the Astrium ST management has committed.

After the certification of Hamburg and Toulouse plants in April 2006, Airbus has become the first and only aerospace company world-wide to receive the ISO 14001 environmental certification covering the 16 Airbus production sites, including the Airbus headquarters as well as all products throughout their lifecycle. The ISO14001 corporate certification recognizes that Airbus uses a robust Environmental Management System to continually monitor and minimize the environmental impacts of Airbus production processes and products throughout their life cycle. Environmental innovations in the production process include the pioneering use of a greener, chemical-free milling process for fuselage panels; more environmental friendly painting processes; and steps to minimise energy and water consumption during the production phase. The Airbus Environmental Management System is helping in a new approach to reduce the environmental impact of products and processes throughout the aircraft life cycle. The life cycle covers design, procurement, manufacturing, transport, in service operations including maintenance, aircraft end of life and recycling.

While classical ISO 14001 addresses only SITE-related certification, Airbus has joined forces with several other organisations (Chamber of Commerce, National Trade Associations, EADS Germany...) to set the rules for an approach to an innovative environmental certification covering both SITES and PRODUCTS along their lifecycle (production sites being only one aspect of this lifecycle). This integrated approach called **SPOEMS** (Site and Product Oriented Environmental

Management System) will help Airbus, among other organisations, to systematically assess the environmental impact of its products along their entire life, and to target appropriate improvements, in particular from the earliest design stage. SPOEMS was selected by the European Union under its "LIFE" Programme.

#### Recycling of waste

Powered by the ISO 14001 certifications, many local initiatives on waste recycling are taken by the BUs, going beyond the regulatory requirements (identification, separation, management of disposal). One example is with Astrium UK: introduction of two recycling waste streams: one for glass and one for paper.

#### Climate Change

EADS BUs were part of the first Emission Trading Scheme set up by the E.U., however EADS operations have a very low impact in terms of greenhouse gas emissions. In the main, EADS' energy use results from heating and lighting requirements (offices, administration buildings, production facilities etc), as well as from processes.

A potential risk from climate change to EADS operations comes from the ever-increasing pressure on energy costs. However, both from a cost and an operational efficiency viewpoint the Group recognises that it has a responsibility to reduce energy usage where possible and so EADS views this as an opportunity to make continuous improvements in this area, particularly within environmental management systems that are currently being set up throughout the Group.

In July 2006, Airbus and Eurocopter, together with five other major European aerospace manufacturers signed a letter of intent in a Joint Technology Initiative ("JTI") that works on the preparation of an innovative "Clean Sky" policy. The Clean Sky JTI will be the largest research project ever set up jointly with the European Commission and would run over a seven year period with a total budget estimated at around 1,7 billion euros. The "Clean Sky" JTI is an innovative, large technological research programme that will radically improve the impact of air transport on the environment and will deliver innovative technologies and solutions enabling step changes in the reduction of noise, emissions and consumption for the next generation of aircraft and associated components and operations.

Its purpose is to demonstrate and validate the technological breakthroughs that are necessary to reach the environmental goals set by the Advisory Council for Aeronautics Research in Europe (“**ACARE**”). ACARE goals to be met by 2020 include a 50% reduction of CO<sub>2</sub> emissions through drastic reduction of fuel consumption, an 80% reduction of NO<sub>x</sub> emissions and a 50% reduction of perceived noise. It also aims for green product life cycle design including manufacturing, maintenance and disposal.

### Restriction of Hazardous Substances (RoHS) directive

The European RoHS directive restricts the use of six hazardous substances (lead, hexavalent chromium, mercury, cadmium, PBB and PBDE) in electric and electronic applications. The European Commission has confirmed that “equipment containing such targeted substances specifically designed to be installed in airplanes, boats or other means of transport are out of the scope of the RoHS Directive”. The defence products are also out of the scope of the RoHS directive. However, it is expected that the industry will progressively move towards new environmentally friendly alternatives in electric and electronic applications. These substitutions remain highly difficult for aerospace activities due to the length of the aerospace products life cycle and stringent safety requirements: the introduction of substitute alternatives requiring testing and certification before replacement.

In 2004, EADS installed a specific network on the RoHS/Waste Electrical and Electronic Equipment (“**WEEE**”) issue, managed by CQO. A prior focus of EADS was on the replacement of lead. A position paper was issued in July 2005 and flowed down to the supply chain and to the engineering community. Standards are under preparation to set the rules for the global aerospace industry’s transition to safety/reliability proven solutions.

EADS and many of its BUs (Airbus, MBDA, Defence Electronics, Space Transportation) participate to the LEAP (Lead-free Electronics in Aerospace Project) Consortium which is preparing these standards. Furthermore, EADS and Boeing have decided to team up to address this difficult transition, by jointly defining the technical solutions, the validation tests protocols and the configuration management rules that will be enforced throughout the aerospace Industry and its supply chain in the coming years.

Dedicated IT tools are starting to be deployed to trace and manage hazardous substances, such as lead, from supply to disposal.

In addition, a project partnership has been formed between Airbus, EADS DCS, the EADS Innovation Works, TechCI, a printed circuit board manufacturer and ACTIA, a board assembling firm. These partners won a funding from the EU (through the LIFE programme) to develop technologies for lead substitution under the name Green Electronics in Aeronautical and Military Communication Systems (GEAMCOS). This project aims at allowing EADS BUs to reliably perform 100% lead-free soldering and to obtain 100% lead-free electronics boards in the medium term.

### Aircraft dismantling and recycling

The life span of an aircraft is about thirty years; as a consequence, the first Airbus aircraft models are about to reach their end of life. Approximately 200 planes are expected to be withdrawn from the worldwide market each year for the next 20 years.

So far, old planes were stored in hangars or dismantled in a non-environmentally friendly way. Airbus has created a consortium to improve management of the end of aircraft life, with EADS Innovation Works (former CRC), Sogerma, Sita (a waste management company) and the Préfecture des Hautes-Pyrénées. This €2.4 million project, called **PAMELA** (Process for Advanced Management of End of Life of Aircraft), was approved in 2005. A special experimental centre has been set up at Tarbes Airport, where procedures for the decommissioning and recycling of aircraft in safe and environmentally responsible conditions are being tested. The aim of this project is to demonstrate that 85 – 95% of aircraft components can be recycled, reused and recovered. It will also position EADS to anticipate further environmental European Regulations on waste recycling. The first aircraft which is currently being dismantled (since March 2006) is an Airbus A300. The experience gained from this project and further dismantling will feed back into new aircraft design to help make future aircraft even easier to recycle.

**Further reporting:** Airbus publishes an environmental report every two years which is available on its website at [www.airbus.com](http://www.airbus.com). Airbus’s fourth environmental report was published in 2006.



	2006
ISO 14001 certification/EMAS registration - Number of sites covered by a certificate	52
Number of sites covered by EU-ETS	12
Total CO <sub>2</sub> emissions (in ton)	330,000
Total CO <sub>2</sub> emissions declared under EU ETS (in ton)	170,000
Direct Energy use segmented by primary source (in MWh)	2,910,000
Volatile Organic Compound Emissions (in ton)	3,900
Total water use (in m <sup>3</sup> )	5,520,000
Total water discharge volumes (in m <sup>3</sup> )	3,050,000
Total hazardous waste production (in ton)	41,300
Total Non-hazardous waste production (in ton)	83,000

Scope: covering approximately 90% of EADS staff, 2006 figures generated on available material, definitions need harmonisation between the various countries in which EADS operates. Except for the number of sites, all figures are rounded.

## 2.4 Human Resources: Employer – Employee Relationship

The HR function ensures that the EADS Group attracts, develops and retains a world-class workforce.

In addition, to this on-going role of business partner, the HR function also supports the business challenges in facilitating the continuous integration and internationalisation of the Group and the building up of a common spirit across the Group's organisational and operational structures.

In the field of industrial relations, the Group HR function coordinates the social dialogue at the Group and Divisional level.

Maintaining high standards of health and safety in the workplace is also a major priority of the EADS Group.

In 2006, several initiatives have been taken to give life to these missions such as re-shaping the HR organisation for better integration of the function facing the group integration goal. With the development of the e-HR project, real change process has been introduced.

In the context of the preparation 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.

### 2.4.1 Workforce Information and Organisation of Work

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

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

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

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

## Workforce by Division and by Geography

The tables below set out the number of EADS employees by business sector and by geographic region. Employees of companies accounted for by the proportionate method (such as ATR, MBDA, LFK) are included in the tables on the same proportionate basis.

The figures for 2004 have been adjusted in order to reflect the new organisational structure which occurred in 2005; “Other businesses” includes ATR, Elbflugzeugwerke GmbH, EADS Sogerma, EADS Socata.

EADS Employees by Division	31 <sup>st</sup> December 2006	31 <sup>st</sup> December 2005	31 <sup>st</sup> December 2004
Airbus	56,966	54,721	51,959
Defence and Security	23,268	23,237	24,268
Eurocopter	13,422	12,755	11,850
Military Transport Aircraft	4,212	3,976	3,856
Astrium	11,927	10,985	11,053
HQ, Innovation Works and other businesses	7,010	7,536	7,676
<b>TOTAL EADS</b>	<b>116,805</b>	<b>113,210</b>	<b>110,662</b>

EADS employees by geographic region	31 <sup>st</sup> December 2006		31 <sup>st</sup> December 2005		31 <sup>st</sup> December 2004	
	Amount	In percentage	Amount	In percentage	Amount	In percentage
France	44,536	38.1	43,286	38.2	42,807	38.7
Germany	42,920	36.7	41,438	36.6	40,325	36.4
Spain	8,991	7.7	8,710	7.7	8,435	7.6
U.K.	14,309	12.3	14,297	12.6	14,045	12.7
Italy	701	0.6	729	0.7	734	0.7
U.S.	1,932	1.7	1,877**	1.7	2,166	2.0
Other Countries*	3,416	2.9	2,873	2.5	2,150	1.9
<b>TOTAL EADS</b>	<b>116,805</b>	<b>100.0</b>	<b>113,210</b>	<b>100.0</b>	<b>110,662</b>	<b>100.0</b>

(\*) The “Other countries” figure includes employees from 13 other countries.

(\*\*) This decrease is mostly due to the disposal of EADS Telecom and EADS Aeroframe services.

Part Time Contracts	2006 In percentage	2005 In percentage	2004 In percentage
France	4.1	4	3.7
Germany	3.3	3.2	3.2
Spain	0.0	0.0	0.02
U.K.	1.6	1.4	0.82
U.S.	n/a	0.1	0.0
Other countries	n/a	n/a	1.3
<b>TOTAL EADS</b>	<b>3.2</b>	<b>3.2</b>	<b>2.87</b>

## 2.4.2 Human Resources Organisation

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

The Corporate HR team operates worldwide as the strategic leader in HR matters and works in close cooperation with the Divisions and BUs which have the operational HR responsibility for most of the employees, except for the top Management of each BU which is under the Corporate HR operational responsibility.

The HR communities work closely together and coordinate and share best practises at functional level. Regular meetings of HR heads are organised at both European and national levels. A global HR database is now available and is being continuously developed in order to fulfil the needs of EADS integration.

At corporate level, six support departments make up the global EADS HR management: HR Improvement and Operations; Social Policy and Industrial Relations ; Compensation and Benefits, Leadership Development and Learning ; Talent and Executive Management ; as well as Security.

Among other, they are responsible for e.g.:

- Managing HR Development for the top 200 key positions;
- Designing policies, guidelines and tools for all group wide HR processes, such as appointments, job rotation, international mobility, compensation and benefits, e-HR projects, data and information systems security policies etc.;
- Organising and delivering executive education for all executives and potential future executives through the CBA and coordinating the training activities within the Group for all employees; and
- Improving the sharing of best practises within the EADS HR community.

## 2.4.3 Human Resources Policies and Performance

### 2.4.3.1 Health and Safety: Providing a Safe Workplace for EADS Employees and Subcontractors

#### Policy

- *“EADS considers that protection of the health and safety of employees in the work-place is key and a top priority for the Group.*
- *EADS is committed to maintaining safe and healthy working conditions for its employees. It is EADS BUs' and subsidiaries' role to implement Health and Safety policies based on evaluation, anticipation and risk management and taking into account all specificities as well as people's needs.”*

#### Organisation and Performances

The management of Health and Safety is essentially dealt with at site level and it accordingly allows that prevention and protection measures for employees, contractors and partners can be defined and implemented to meet specific requirements of each work place.

Reporting on health and safety obeys national regulations according to the sites' locations.

However some health and safety indicators have started to be drawn up at the Division or BU level which mainly address work related accidents.

As an example of the Group performances, the incidence and severity rates of reportable accidents (work related accidents causing an absence of more than 3 days) recorded at Airbus, noticeably decreased from 2004 to 2006, while in the same period aircraft deliveries increased.

Airbus	2006	2005	2004
Incidence rate (%)	10.6	12.61	13.18
Severity rate <sup>(1)</sup>	0.133	0.184	0.236

(1) Lost days caused by reportable accidents/employees.

### 2.4.3.2 Caring for EADS Employees and EADS Know-How

#### Policy

*“Given the specific nature of the facilities of the EADS Group which are used for many activities relating to national defence and sensitive civil markets, the conditions governing access to and movements inside the plants and facilities are specified in ministerial orders and are based on two main principles:*

- *access to a plant is subject to prior authorisation by the company; and*
- *entry into restricted and sensitive areas is regulated in accordance with national and company regulations.”*

#### Organisation and Performance

EADS has set up a security policy to improve the security of its employees and to protect EADS expertise. A Security Committee has been set up as a combination of Security leaders from each country and each Division who supervise their local security officers at BU and plant level, and who deal with national security authorities and European security organisations.

The network of security managers is there to ensure information exchange and sharing of best practices. Working groups are created to facilitate constant adaptation of security measures to actual threats. Access to EADS facilities is subject to prior authorisation, and entry into restricted and sensitive areas is regulated in accordance with national and company regulations. The awareness of the EADS employees is addressed as a main success factor.

The increasing development of EADS business outside Europe implies to reinforce the safety of EADS employees in risky countries and to improve the security of EADS offices abroad.

In terms of IT security, appropriate steps were taken to audit processes and improve the level of awareness of EADS employees to the security of the information systems. Given the sensitive nature of the Group’s business, employees must be able, in order to meet the business needs, to always work in compliance with group security policies ; hence, the Group implements, for instance, secured nomad IT solutions facilitating mobility and business reactivity with confidence.

In 2006, a particular focus was developed on risk management, addressing and challenging all the security matters and business security needs. Particularly, new procedures have been defined and implementation to specific applications has begun (e.g.e-HR).

### 2.4.3.3 Diversity: Commitment to Ensure Equal Opportunity for all EADS Employees

#### Policy

- *“EADS commits to offering equal opportunities for all its employees and to refraining from any discrimination against its employees based on gender, race, religion, nationality, political opinion, sexual orientation, social origins, age and handicap with regard to its personnel.*
- *EADS commits to developing access for women to all of its activities and shall ensure fair professional development as well as equal remuneration for men and women employees for skill and work of equivalent value.”*

#### Performance and Best Practices

EADS has always promoted diversity through its existing culture of cross-border collaboration.

EADS principles regarding respecting and promoting diversity are listed in the Group Code of Ethics as well as in the “International Framework Agreement” signed with the European Works Council.

The following examples illustrate the implementation of these principles:

#### Nationalities

EADS welcomes 40 different nationalities among its employees worldwide (each of the nationalities represented by 10 employees at least).

#### Gender Diversity

The percentage of women employed in 2006 in the Group is about 15.2%. It has steadily increased since 2004, when the Group started to reinforce its policy in this field; the increase in the percentage of women was registered across all Divisions.

As of 31<sup>st</sup> December 2006, according to a Group-wide internal grading system, around 5% of executive positions (highest EADS management levels) were held by women, as well as 8% of senior manager positions.



Women at EADS	31 <sup>st</sup> December 2006 In percentage	31 <sup>st</sup> December 2005 In percentage	31 <sup>st</sup> December 2004 In percentage
Airbus	13.2	12.7	12.4
Defence and Security	18.9	18.7	18.9
Eurocopter	13.1	12.6	12.3
Military Transport Aircraft	13	12.6	12.1
Astrium	19.6	19.2	19.4
HQ, Innovation Works and other businesses	17.6	15.7	15.4
<b>TOTAL EADS</b>	<b>15.2</b>	<b>15</b>	<b>14.8</b>

EADS has committed to a long-term plan for the promotion of women in aerospace and has set two priorities: at least 20% of its annual recruitment will be women, and it will have active communication within universities and schools in order to convince female students through lively role models and concrete examples that the aerospace industry, and more specifically EADS, is an attractive employer for women.

From 1<sup>st</sup> January 2004, BUs have been asked every quarter to report on their success in recruiting women.

The EADS CBA promotes diversity in all development programmes. In 2006, the percentage of women has increased in these programmes to be consistent with the Group recruitment target.

In 2006, the recruitment of women was 22.6% of total recruitment (20.5% in 2005), and so exceeded the Group's target. The Divisions Defence & Security and Astrium as well as the EADS Innovation Works are leading the way in this field.

Since 2004, EADS has been involved in a partnership with the **FEMTEC** university career center for women Berlin GmbH in Germany.

Working in cooperation with well-known companies, the aim of this cooperation between FEMTEC and industrial companies is to promote engineering studies among young girls and women, and to help high potential and specialized female students enter the aerospace industry. EADS takes an active part in career advice workshops designed for FEMTEC students as well as in conference days.

In France, EADS sponsored the **Irène Joliot-Curie award** for the third time in 2006 (See "2.2.2 Sustaining and Protecting Innovation – Innovation Chapter").

Furthermore, EADS is an active member of the **WIST** (Women Initiative in Science and Technology), a programme funded by the European Commission and aiming at exploring the partnerships between private and public research, as well as the links between diversity and business performance.

**Airbus** also agreed on a partnership with the Academy of Toulouse to facilitate contacts between female professionals and students, to provide information to students, teachers and career advisors on technological advances and new skills, and to participate in relevant events.

Other initiatives include:

- in Germany, the organisation of a "**girls' day**" which is an open day for girls at the EADS German sites to allow them to find out more about the engineering profession;
- in France, participation in the "*Elles bougent* ("*they move*") initiative. Led by major French engineering universities (ENSAM, ESTACA) together with key players from the transportation industry (EADS, PSA, Dassault, SNCF...), this project aims at raising young women's awareness of technical studies, as well as interesting them in complex technologies through plant visits, conferences, as well as regular contacts with female engineers currently working in the member companies, plant visits, conferences...

Finally, in keeping with this overall strategy, a meeting with participants of the **IIWE** (International Institute for Women in Engineering) took place in July 2006 at EADS Paris headquarters, the Astrium ST plant in les Mureaux and at Eurocopter in la Courneuve. 80 young women took part in workshops on diversity and scientific vocations.

EADS was also a business partner to the second "**Women's forum for the economy and society**". This forum, which took place in October 2006, was created to promote the vision, influence and impact of women on all the major economic and social issues. It gives women an opportunity to express their views, ideas and solutions. It aims at defining directions for progress in the world of tomorrow.

In France, the implementation of the agreement signed in 2004 with trade unions ("*Accord sur l'égalité et la mixité professionnelle*"), is monitored by each EADS company, and also at Group level, using a defined set of common indicators to evaluate results and track progress with an action plan covering the 2004-2006 period. This action plan is to be re-negotiated every three years.

### Age diversity

A group agreement covering EADS entities in France signed with trade union organisations in 2005 aims at banning all career development based on age criteria.

Being concerned with the lengthening of working life, the other European entities of the EADS Group are also working on this issue of second half of career development.

Number of employees per age group	31 <sup>st</sup> December 2006	31 <sup>st</sup> December 2005	31 <sup>st</sup> December 2004
18-25	7,578	7,179	6,812
26-35	29,621	27,303	26,081
36-45	37,026	37,127	37,544
46-55	36,545	35,358	34,565
56-65	12,227	11,229	10,984
<b>TOTAL EADS</b>	<b>122,997</b>	<b>118,196</b>	<b>115,986</b>

Consolidated companies are counted 100%.

Average age of employees	31 <sup>st</sup> December 2006	31 <sup>st</sup> December 2005	31 <sup>st</sup> December 2004
France	41.3	41.4	41.6
Germany	42.0	42.2	42.1
Spain	42.8	42.4	42.9
U.K.	42.3	41.9	41.7
U.S.	44.2	43.9	42.4
Other countries	n/a	40.8	39.5
<b>TOTAL EADS</b>	<b>41.8</b>	<b>41.9</b>	<b>41.9</b>

Average length of service	2006 In years	2005 In years	2004 In years
Airbus	13.4	13.4	13.6
Military Transport Aircraft	20.1	20.8	21.5
Eurocopter	13.4	14.2	15.1
Defence and Security	16.3	16.7	16.5
Astrium	15	15	14.9
HQ, Innovation Works and other businesses	12.5	13.3	13
<b>TOTAL EADS</b>	<b>14.3</b>	<b>14.6</b>	<b>14.7</b>

#### 2.4.3.4 Career Development: Efficient Management of Skills and Know-How

##### Policy

- “EADS ensures that working time, including overtime, is regulated so as to support a healthy balance between employees’ work and their private life.
- EADS strives to develop the skills and know-how of its employees, for their individual benefit as well as for its collective success. The EADS personnel development policy aims at:

- supporting training to enhance performance and quality of work;
- encouraging cross-border and cross functional teamwork, in the frame of intra-Group mobility;
- assessing and recognising individual technical expertise via a global scheme developed throughout the Group; and
- associating personnel to the performances of the Group and its subsidiaries through a success sharing scheme.”

## Performance and Best Practices

### Recruitment and retaining of talent

EADS strongly believes that developing close contacts with target universities and their students will contribute to the students' growth and will efficiently brand the group among potential future recruits.

EADS demonstrates its commitment in many different ways: by sitting on boards, advising on classroom content, preparing case studies, giving technical lectures or on-campus conferences, arranging plant visits, maintaining a presence at career fairs, or by enhancing cooperation in common research areas.

For instance: EADS attends more than **40 recruitment events** per year such as the Bonding student fairs in Germany, the Polytechnique, Centrale and Supaero career fairs in France, as well as the MIT or Berkeley fairs in the U.S. to name but a few. Dedicated branding and recruitment meetings are also held during major air shows such as ILA or Paris Air Show, thus promoting EADS' employer brand among real aerospace fans and attracting talented candidates.

In the framework of the EADS Global Industrial Development policy and following HR presence at Asian Aerospace in Singapore in February 2006, HR Marketing decided to go one step deeper in the Asian market. With the aim of developing EADS employer brand on a group wide level in China, the HR team was part of the EADS staff at Zhuhai Airshow 2006.

The EADS Group started its own Road Shows around Europe at key Universities within the Pegasus Network (Partnership of a European Group of Aeronautics and Space Universities). EADS, together with all EADS Divisions are present on campus in order to forge new contacts to the leading "aeronautics and space" universities in Europe as well as to build a powerful image of EADS as a desirable employer. In addition, discussions with faculty members, professors and EADS engineers helped to develop first steps into future education and skills of the students to be prepared for a successful career within the aerospace industry.

Such partnerships also demonstrate EADS' long-term commitment to building and maintaining a lasting relationship with key universities or networks.

In addition to increasing on-site presence among students directly at universities, EADS also organises more than **60 factory tours** at most of its Divisions and BUs.

After more than one year of intensive project work, EADS was able to announce the official roll out of the new EADS-wide eRecruiting@EADS platform. This new platform will respond to the company's future workforce requirements and will bring transparency to the Group-wide job market.

Launched in November 2006, this new recruitment platform will ensure that EADS has the right people in the right place at the right time. The new eRecruiting@EADS platform has an important role to play in shaping the future of EADS.

With more than 5,000 **internships** offered each year in Europe, EADS provides students with valuable technical and personal experience as well as with the unique opportunity to have a closer look at the industrial world. Most of EADS' internships target students in the fields of aviation and space technology, electronics, information technology, finance, or management.

In order to enhance the personal skills and abilities of its former trainees, EADS developed the **Juniors programme** to follow-up all EADS interns, and thus retain and recruit highly motivated interns.

A variety of other opportunities (depending on national regulations and policies), including vocational training and scholarships programmes, are also offered to students.

In order to increase the efforts of integration, new specific recruitment and development programmes have been created internally to contribute to the ongoing development of EADS' workforce. A programme called PROGRESS which consists in first stretching assignments for talented recruits in addition to mobility within the EADS Group, has been designed and will be deployed in 2007. Moreover, EADS Development Programmes (Financial Management Development Programme and Advanced Marketing and Sales Programme) offered to professionals interested to join EADS in key fields such as sales and finance have now proven their efficiency.

Breakdown of employees per qualification	2006 In percentage	2005 In percentage	2004 In percentage
University (4 years and more)	24.4	24	23.9
University (up to 3 years)	19.3	18.9	19.1
Higher vocational school	9.9	11.3	9.5
Vocational school	40.9	41.5	41.4
General school	5.5	4.3	6.1

### Development and training

Development is a priority for EADS employees. Indeed recognising the development of **technical expertise** as a major asset, EADS has developed a specific policy for engineering experts, who are key to EADS for maintaining its competitive advantage through R&T developments.

Aiming at creating attractive career paths for engineering experts, the policy also includes development programmes customised for the specific requirements of technical experts.

Personal development also includes **training**. EADS' expenses amount to approximately 4% of its payroll (over €150 million) in training per year. EADS trains more than 70,000 employees every year for a total of 2.5 million hours.

To improve the effectiveness of that significant investment, EADS has set up a Learning Directorate with the ambition to deliver better training programmes, to share internal resources, to be more proactive in that domain and to create more value for the business. The Learning Directorate is managed by the EADS head of Leadership Development and Learning.

- One of the decisions of that directorate has been to create a "Shared College" which will be the place where all the Divisions will share common training programmes and common resources, including internal trainers. Created in 2006, the Shared College will deliver its first programmes in 2007 and should ramp up very quickly to face the needs of EADS. The first programmes targeted within the Shared College will be on Quality, on System engineering and on Programme management.
- In the same trend of integration, EADS has decided to create a Leadership Model based on 6 principles which illustrate the successful way of leading and managing within EADS. This Model is used in development with tools such as specific EADS 360° feedback processes, or Development Centers.
- The CBA, created in 2000 as a EADS Corporate University to develop the current executives and prepare the next generation of executives, has focused some of its programmes to prepare actively EADS leaders on internationalisation, improvement and innovation.

In 2006, the Centre for Executive Education of EADS (Domaine de Villepreux) close to Bordeaux has hosted more than 1,000 guests for its second year. This centre has been designed to provide facilities to the whole Group for top management meetings, training sessions and executive seminars.

### Mobility

EADS employees are also offered a wide range of mobility opportunities. Mobility at EADS means mobility across functions, BUs and Divisions in its four home countries, France, Germany, Spain and the U.K., as well as appointments to regions such as America or Asia.

As of 31<sup>st</sup> December 2006, 2,000 EADS employees were recorded as expatriates<sup>(1)</sup>, 75% of them working in one of the European countries.

### Remuneration

The total wage bill amounted to €8.73 billion in 2006 (See "Part 1 – 1.2 Financial Statements" – note 7).

### Success Sharing Practices

EADS' reward schemes policy is strongly linked to the achievement of individual and Company objectives, both for each Division and for the overall Group. In 2006, a stock option plan and a performance and restricted shares plan have been established for the senior management of the group (See "Part 1 – 2.3.3 Long Term Incentives Plans"). In 2006, no employee offering took place. The employee offering originally scheduled for June 2006 was postponed to March 2007. (See "Part 1 – 2.3.2 Employee Share Ownership Plans").

Since 2005, the success sharing schemes which are implemented in EADS in France, Germany, Spain, and the U.K. follow one set of common rules of the Group, ensuring a consistent application in these four countries.

## 2.4.3.5 Employee Relations: A Proactive Dialogue

### Policy

- *"EADS emphasises its belief that a continuous and high quality social dialogue is key to the Group. In particular, the European Works Council ("EWC") facilitates a pro-active and fluid dialogue with employee representatives.*
- *EADS ensures that the representation of personnel is conducted throughout all its BUs in a constructive atmosphere. This maintains a proper balance between the interests of employees and the economic interests of the Group."*

(2) Scope : approximately 90% EADS.

## Performance and Best Practices

### European Works Council

On 23<sup>rd</sup> October 2000, at an early stage of the formation of EADS, the management and employee representatives from the unions and works council operating within EADS in France, Germany, Spain and U.K. signed an agreement for the establishment of the EWC.

- The EWC meets twice a year for information and consultation on evolution of the business and the prospects of the Group.
- The EWC also comprises an economic committee which meets four times a year and focuses on economic matters.
- European sub-committees have also been set up in various BUs such as Airbus, Eurocopter, EADS Astrium and EADS DS and replicate the EADS EWC model.

National committees in France, Germany, and Spain enable dialogue on national matters, under the subsidiarity principle.

In the context of the preparation of the Airbus restructuring programme and the evolution of EADS organisation, and in addition to the legal procedure, informal dialogue process has been agreed with personnel and unions representatives. It thus results in increasing the number of meetings initially planned and in developing cross-divisional coordination and information cascading down for both the preparation and implementation phases.

### International Framework Agreement

Placed in the context of globalisation of EADS activities and as an illustration of the continuous dialogue principle the EADS Group and the Group's European Works Council concluded in June 2005 an International Framework Agreement. By this agreement, the signatories expressed their commitment to common principles and social standards which they recognise as fundamental, and which they intend to promote worldwide, in the countries where EADS activities are implemented. EADS and the Group's European Works Council expressed their strong belief that CSR is a key to long-term success.

The European Metalworkers' Federation (EMF) and the International Metalworkers' Federation (IMF) associate themselves with these principles and are, accordingly, co-signatories of the agreement.

The principles contained in the International Framework Agreement are aligned with the general rules of ILO

conventions, the OECD Guidelines for Multinational Enterprises and the principles laid down by the UN Global Compact, which EADS signed in October 2003, and they are in compliance with the Code of Ethics.

They cover the fields of equal opportunities and non-discrimination in respect of employment, of working conditions and environmental protection, condemn recourse to child labour, recognise the principles of freedom of association and the protection of trade unions' rights.

EADS expects all its suppliers to recognise and apply the principles of this framework agreement.

### Overview of collective agreements/works agreements signed with Unions/Works Councils since 2000

EADS Group Agreements were concluded on the following matters:

- establishment of a European Works Council<sup>(2)</sup>;
- linking personnel to the business performance of the Group<sup>(3)</sup>;
- International Framework Agreement.
- In Germany, Tariff Agreements were concluded in relation to such matters as holiday pay, Christmas bonus, sick pay, and early retirement, as well as agreements with the works council on success sharing, insurance package, company pension, early retirement deferred compensation, suggestion scheme, family and work life balance, disabled people, and time saving system.
- In France, Group Agreements were concluded in relation to such matters as employment issues, union's rights and social dialogue, pre-retirement, management of second half of career, health cost coverage, French national committee and unions coordinators, professional equality and diversity, working time, career-long training, new frame for health insurance.
- In Spain, a collective bargaining agreement covering various subjects regarding working time and organisation of work, includes also social benefits such as aid to children of employees, collective transport, retirement, life insurance, loans, prize at retirement, canteens, aids to worker association.

It has to be noted that collective agreements can be signed at the BU level on matters directly related to their specific social perimeters.

(3) Agreement for the establishment of a European Works Council and its sub Committees for information and consultation of the workforce between EADS NV and its Employees Representatives dated 23<sup>rd</sup> October 2000.

(4) Group Agreement on implementation of a success sharing scheme within EADS- NV Group between Head of EADS NV HR and the EADS NV European Worker Council dated 29<sup>th</sup> June 2004.

## 2.5 Corporate Citizenship

### 2.5.1 Maintaining an Open Dialogue with EADS' Stakeholders

#### 2.5.1.1 Policy

*“As one of the largest European companies, EADS is aware of its duties and is willing to develop its contribution to the cultural, educational and social background in the countries where EADS operates. In particular, EADS aims at reinforcing project partnerships with universities and research centres, through, for example, the EADS Research Foundation.*

*EADS shall do its best to maintain an open dialogue with its stakeholders and to provide clear answers to requests for clarifications within the limits of its obligations.”*

#### 2.5.1.2 Organisation

EADS' contributions come in different forms; they include sponsorships, donations, or partnerships. Wherever located, EADS contributes to a range of activities, conferences or institutions, which address social, educational, cultural or sport subjects. In most cases, such activities are initiated by EADS local entities which are also in daily contact with relevant stakeholders.

However, EADS has implemented donation guidelines (under the responsibility of EADS Corporate Secretary) as well as sponsoring guidelines (under the responsibility of EADS Corporate Communications) which set out criteria for granting contributions to projects.

The guidelines also provide certain thresholds above which such activity has to be reported to the Corporate Secretary or Corporate Communications respectively and approved at the level of the CEOs.

#### 2.5.1.3 Performance and Best Practices

##### Sponsorships and Donations

In 2006, EADS contributed more than €2 million to social, cultural, sport or educational projects. A special focus is made on industry-related initiatives and science oriented projects. However, this figure does not include contributions to the EADS Corporate Foundation for Research in France or the FIDAMC in Spain.

EADS contributes to humanitarian activities by donating and giving material or providing air transportation capacities when necessary. Among others, EADS has a long-term partnership with “*Aviation sans Frontières*” (“**ASF**”) non-profit organisation in France, Germany and Spain, a humanitarian organisation which provides air transport for, in particular, seriously ill children. In 2006, ASF France escorted the 10,000<sup>th</sup> child to a medical operation in France.

EADS also encourages its employees who individually participate actively and responsibly to local initiatives which contribute to the overall development of the local communities.

##### Dialogue with Stakeholders

EADS is always ready to listen to critical voices and welcomes constructive contribution. The Group strives to maintain an open dialogue with any stakeholder who genuinely seeks additional information on EADS businesses, operations or CSR activities.

Particularly, in order to provide the most accurate information to our stakeholders and stockholders, the Group proactively interacts with the main sustainability rating agencies. EADS aims at continuously improving the ways of integrating CSR into its day-to-day business. In keeping with this objective, the agencies' analysis contribute to the EADS efforts in assessing the Group strengths and weaknesses and point out possible gaps in the CSR reporting. They also provide with indication of the benchmark positioning of EADS within the aerospace and defence industry which is currently behind the other industries in terms of CSR reporting.

## 2.5.2 Encompassing Community Interests in EADS' Global Strategy

### 2.5.2.1 Policy

- *“EADS is proud of selling its products and providing its services to an increasing number of countries, thanks to the trust placed by international customers in its global reputation.*
- *EADS is conscious of its responsibility as a global company in the spreading of sound international business practices that foster the expansion of a balanced and fair globalisation benefiting all countries.*
- *EADS encourages industrial cooperation with local industries whenever possible in order to support the development of skills and competencies.*
- *EADS supports local initiatives dedicated to the promotion of corporate social responsibility-oriented projects.”*

### 2.5.2.2 Organisation

A function, named Global Industrial Development (“**GID**”), is in charge to design and implement the EADS Group Global Industrial strategy. This function, which was created at the end of 2005, includes a corporate team and a Division network.

Overall EADS organisation tends to implement globalisation in full line with EADS policy. The main driver is to establish, whenever possible, long-term industrial partnerships with balanced benefits between EADS and the local partner.

### 2.5.2.3 Performance and Best Practices

In 2006, EADS made significant breakthroughs for globalisation. Among others, EADS prepared the ground to significantly enhance industrial footprints in India and China.

The EADS Technology Centre India is expected to open in 2008 in Bangalore. It will host both EADS subsidiaries and suppliers performing engineering, software development and technical publication activities. This will represent in total up to 2,000 jobs creation in the next 10 years.

Eurocopter has started with a Chinese partner the joint development of EC 175, a new multipurpose helicopter. At the same time, Airbus is preparing the establishment of an A320 Final Assembly Line in Tianjin province, which should start operations in 2008.

These milestones in India and China confirm the commitment of the EADS Group to globalize its industrial footprint in strategic countries, through win-win association with the local partners. While EADS expects to benefit from sustainable market access and high skilled resources in specific activities, the country benefits from the development of its local aerospace industry, with the creation of hundreds of jobs in core activities such as engineering and final aircraft assembly.