



Dear shareholders,

2006 was a difficult and disappointing year for all of us. The company was delivering commercial success, making strides on its expansion path, and our divisions were performing well. But a shockwave of events at Airbus hit us unexpectedly, most visibly with the A380 program, and forced us to re-examine operations: we realised that, besides long-term issues of competitive pressure on prices and the persistent weakening of the US dollar, many factors of past accomplishments need to be either changed or reinforced.

The transformation of EADS requires substantial efforts across the group. Airbus in particular, requires an overhaul of the original industrial set-up, a behavioural evolution and more modesty. Given the nature of our business, we are locked into certain elements until 2010, such as our backlog or the hedge portfolio. Reorganisation programs, mostly Power8, are the only levers that EADS can, and must employ to emerge stronger.

There are many factors that support us in accomplishing this indispensable task. Orders still hover at historic heights. The demand is robust – particularly visible in the Single Aisle segment. A continuation of this upcycle is expected as US airlines need to rejuvenate their fleets.

Meanwhile, our other businesses display increasingly better performance, because past restructuring efforts, such as those of the space business, are bearing fruits. Opportunities for defence sales in the US are more tangible than ever, after the winning of the Light Utility Helicopter contract. Our hedge book is valuable, though not a cure to the threat of an unrelenting weak euro-dollar exchange rate, and our customer financing exposure has been reduced yet further.

In organisational terms the integration of the EADS Group significantly progressed with the acquisition of the 20% BAE Systems stake in Airbus in October 2006. Shortly afterwards, Louis Gallois and myself respectively became CEO and CFO of Airbus. This dissolves an important structural impediment and furthers transparency in the Group. This assimilation should translate in a better allocation and flow of resources, infrastructure and capabilities between Airbus and the other EADS Business Units and Divisions.

Impacts of the A380 industrialization delays will still be visible in 2010, as margin contributions and cash flows from full production are now pushed back by two years. But following the ramp-up, working capital will return to a normal level and free up financial resources that can then be allocated elsewhere.

The development of the A350XWB programme, launched in 2006, is one such area of future investment, and ultimately, a new short range aircraft may also lead to a rush of R&D spending through the first half of the next decade.

In the face of these needs, management needs to push forward for a leaner, less complex and less capital intensive model for EADS. Proactive portfolio management, implying divestments of non-core or non-strategic assets as well as selective acquisitions, will ensure the flexibility and necessary adaptive skills.

Furthermore, EADS needs to be better equipped to surmount a potential erosion of the business environment, whether a deterioration of the currency environment or a reversal of the cycle, and to maintain a prudent balance sheet structure and an acceptable credit rating. Debt instruments in the most optimal form then available will be our preferred course for realising financial and strategic flexibility.

Finally, we retain the option of a capital increase. As we have a strong cash position, and are sensitive to concerns of dilution of our shareholders, there is no urgency, so this is only envisaged as a contingent measure. Successful implementation of initial steps of Power8, success of the A350XWB in its market, deliveries of A380, and continued momentum of the helicopter, defence and space businesses are an absolute prerequisite to such a move, unlikely before 2008.

EADS' longer term guidance, to 2010, does not satisfy management, but it reflects our acknowledgment of substantial challenges that still need to be overcome. As the business regains its equilibrium, and achievements inspire new ambition, management will seek to raise its sight to higher targets of growth.

Yours truly,



**Hans Peter Ring**  
Chief Operating Officer for Finance