

INSIDE

EADS

Our shared functions are leading a renewed push for integration across the Group. They are acting as agents of change throughout our Divisions, turning strategy into reality and delivering the sense of common purpose that is driving us forward.

Research & Technology

The appointment of a Chief Technical Officer has invigorated the innovation process, and technology development is becoming more closely aligned with Group strategy.



Research on
Virtual Reality



Following the appointment of a Chief Technical Officer (CTO) in April 2006, innovation, and particularly technological innovation, has been strengthened with greater focus being put on aligning the Group's Research & Technology (R&T) with the company's business strategy.

The CTO position has been assigned authority through a new place 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 is also introducing measures to ensure that each Division benefits fully from technologies developed in the others. For example, the greatest expertise in composite aircraft structures resides within Airbus, whereas the best sensor technology resides in Defence & Security.

The refined R&T strategy builds upon the Group's growing pace of innovation. EADS filed almost 800 new patents in 2006, up from more than 300 in 2001. Additionally, the number of patented inventions owned grew to more than 5,000 in 2006, up from more than 4,000 in 2001.

Aligning R&T with Group strategy

The CTO has started to better align the EADS technology portfolio with the Group's business strategy by re-balancing the R&T budget in favour of the growth areas in the business. He aims to deliver more shareholder value through a stringent, leading-edge R&T portfolio that enables flawless introduction of new technologies on future products, with strong returns on investment at the end of the innovation pipeline.

Key growth technologies have been identified and allocated "protected" budgets. These technologies include fully composite fuselages, secure communications and software, enhanced vision for all-weather helicopters and synthetic-world modelling, to name but a few.

Behind these new goals there is a new management structure for R&T. The EADS Executive Technical Council (ETC) is responsible for ensuring that top-down technology strategy is implemented through the Divisions and Business Units. Headed by the CTO and made up of the technical directors of the Divisions, the ETC meets regularly to formulate future strategies and to identify synergies. The ETC ensures that a balance is maintained between the top-down strategic guidance and the bottom-up expertise, creativity and responsibility.

The Corporate Technical Capabilities function (reporting to the CTO) is in charge of the corporate R&T production facilities that guarantee the Group's technical innovation potential with a focus on the long-term horizon.

Global Innovation Networks (GINs) have been established for each of the five major research fields in order to advance technology fields of major importance to the Group and to ensure that relevant information is shared across the Divisions. An experienced executive will manage each GIN.

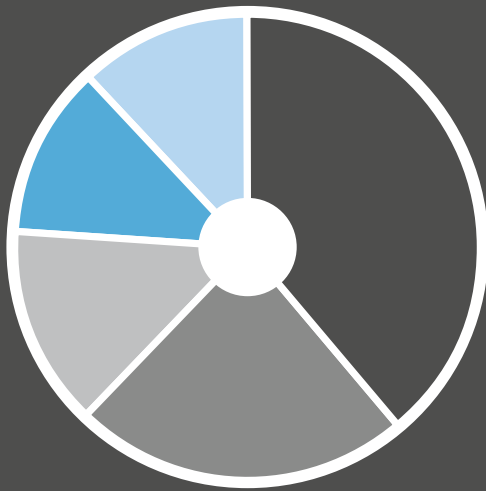
New roles

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 Chief Executives and the Executive Committee. The responsibility for corporate Information Management (IM) has been passed from Finance to the CTO's organisation. He plans to harmonise design and engineering tools such as computer-aided design software across the Group and its suppliers in order to improve Group integration.

He also intends to foster a culture of innovation. Consequently, R&T and Human Resources are building the "EADS Expert Initiative" to identify technical experts and to offer them career opportunities similar to those of managers. 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").

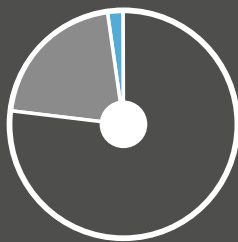
Sourcing

EADS is creating closer relationships with major suppliers, increasing global sourcing and integrating procurement across Divisions to enhance efficiency and its market positions.



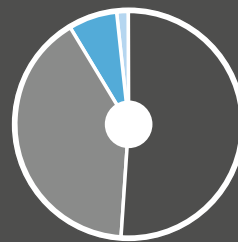
SOURCING PORTFOLIO

- 39% Systems & Equipment
- 23% Indirect Material
- 14% Structure and Airframe
- 12% Production Material
- 12% Product-related Services



SOURCING BY REGION

- 77% Europe
- 21% North America
- 2% Rest of World



SOURCING BY CURRENCIES

- 51% EUR
- 41% USD
- 7% GBP
- 1% Other Currencies

TOTAL SOURCING VOLUME IN 2006: €34 BILLION

A380 engines



Sourcing is playing an important role in improving EADS' business model, refining its activities as part of the drive to increase Group efficiency and integration while reducing cost and risk. It is taking action to secure supplies, manage costs and supplier performance, reduce exposure to the dollar and expand its presence in strategic countries.

There are three broad initiatives. The Group is beginning a process of developing its supply base towards forging closer relationships with key suppliers. It is increasing sourcing from strategically important countries outside Europe. And further measures are being taken to foster stronger and more efficient coordination of activities across the Divisions.

Specific steps were taken towards these goals in the 2006 financial year, and efforts will intensify in 2007.

Closer relationships

During 2006, EADS began to review its supply base in terms of what it buys, where and how. It intends to form closer relationships with a limited number of tier-one suppliers, giving them more responsibility for managing larger contributions, including suppliers lower in the chain. This allows EADS to focus on its core activities and to form stronger relationships with a smaller number of key suppliers.

These suppliers will be selected for their expertise and proven performance, as well as their ability and commitment to EADS' business interests. This includes sharing risks arising from the end customer market. They will, for example, be expected to invest in developing tomorrow's technology, products and systems, to help reduce dollar exposure and to support EADS in accessing new markets.

As a step towards strengthening collaboration with key suppliers, Supplier Councils and the EADS Procurement Network were started in 2006 and are systematically enhancing cooperation and networking with suppliers. They aim to improve the efficiency of the supply chain, to secure consistency for selected key elements of EADS' procurement strategy, and to optimise processes through sharing best practices.

Internationalisation

The Group intends to increase sourcing from outside Europe. Currently, approximately one fourth of the value of all sourcing is from outside Europe, but this is expected to grow to 35% within a decade. As well as increasing access to essential technologies and commodities, this will expand sourcing volumes from Asian

countries and support EADS in seeking new revenues from growing economies. This will also mitigate exposure to dollar weakness and help to reduce costs associated with labour intensive production.

Country sourcing offices are being installed in China and India, with further locations under consideration. A substantial number of sourcing missions to priority countries have improved awareness and knowledge of sourcing opportunities.

Sourcing integration

Coordination of procurement activities across the Divisions has increased in a number of ways.

To better integrate sourcing within EADS, the Chief Procurement Officers Council was established. This is a forum for Chief Procurement Officers from all five Divisions and the Headquarter to discuss all topics of interest with more than one Division.

By leveraging purchasing power across EADS, the Lead Buyers again made considerable cost reductions, in line with their targets. EADS is now preparing to increase their powers through Joint Procurement by going beyond aggregation of demand towards demand management and harmonisation. Shared Services in Procurement are being investigated in order to increase efficiency.

Reflecting the greater integration of sourcing, EADS started to roll out a common e-sourcing platform across the Group. The common platform, which hosted more than 4,500 electronic calls for tender in 2006, will support joint procurement activities and leverage synergies regarding infrastructure, supplier databases, templates and transparency.

Looking forward to 2007, EADS will begin to reduce the number of tier-one suppliers. It will also continue to seek sourcing opportunities outside its home markets and to leverage Group purchasing power. At the same time, the procurement functions will further develop capabilities, processes and tools.

Human Resources

Human Resources (HR) is improving integration through the further development of common policies, processes, programmes and shared services.



Helicopter manufacturing



HR integration

The common EADS HR Board, consisting of the Divisional HR directors and Group Head of HR, has been driving further integration of HR activities in EADS by introducing common IS platforms, common programmes, tools, processes and shared services. Common HR objective-setting and project review processes have been established with the Divisions, and formal double-reporting lines direct from the Divisions to the Group HR Head have been formalised during the year. The HR Community has organised common events to foster functional integration and sharing best business practices between Divisions.

Social process

Both EADS and its Divisions have active European Works Council structures in place. These different forums allow the possibility for proactive social dialogue between employee representatives and management. An important challenge of the year was the preparation of the communication process and start of dialogue with the European Works Council and with the Trade Union representatives about the Airbus Power8 programme, wider restructuring across the Group and implementation of shared services. These discussions are conducted in a proactive and coordinated manner on EADS' Divisional and National level.

e-HR and shared services

HR Shared Services has undergone further development and deployment, providing services such as payroll and time management in all four main EADS countries and for all Divisions. In January 2007, HR Shared Services provided payslips with a single IS platform for 110,000 employees. Shared Service development is an important part of HR re-engineering and transformation processes. A common e-recruiting platform was deployed in order to provide a single source and harmonised recruitment tool for the Group. Further e-HR developments have been launched to be fully deployed in 2008, e.g. performance & development cycle, competency-management and learning-management systems.

Competency management & development

To secure the availability, right-time recruitment, training and retaining of people for future business needs, several initiatives have been launched. The "EADS Expert Policy" has been implemented across the whole Company. This initiative improves the identification and recognition of technical experts, and offers them career opportunities similar to those of managers. EADS Divisions have piloted several initiatives, such as the mapping of individual skills, professional certification processes, identification of long-term competency needs and systems of classification of competencies to be able to ensure that EADS Divisions are better able to anticipate the availability and need for technical competencies in the long term.

The EADS "Shared College" has been created to share common training programmes across the EADS Divisions and to pool resources, ensuring that the best technical expertise is shared across the Group.

Leadership development, talent & executive management

The Corporate Business Academy (CBA) programmes for development of management and leadership skills have been performed for an even wider number of participants. The EADS Executive Education Centre of Villepreux is fully operational. In addition to basic management and leadership training, CBA also provides strategic platforms for management to study topics such as internationalisation through Action Learning Expeditions to China and India.

A new "Group Leadership Model" has been introduced for all EADS to be the basis for common leadership training programmes and common tools, such as 360° assessment. Additionally, an annual round of potential and development discussions, followed by development conferences, were carried on to promote executives' and senior managers' career development. A new mentoring programme has been piloted successfully. Internal mobility of managers and executives has also been promoted.

Employer image

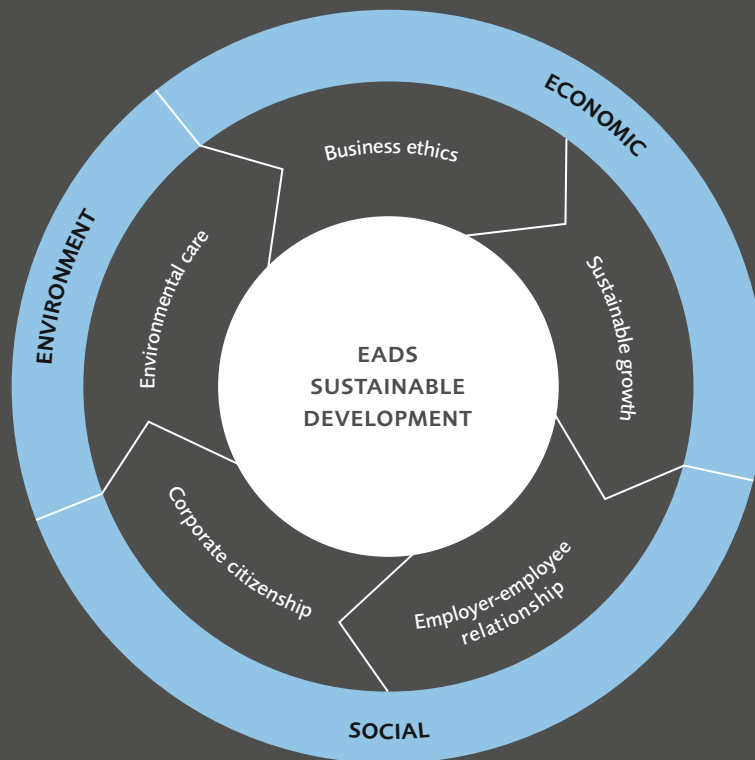
In early 2006, EADS was ranked one of Europe's most admired employers among engineering students, being ranked number 1 in France, number 8 in Germany and number 4 for overall Europe (Trendence & Universum surveys). HR participated in 40 national and international recruitment fairs and exhibitions in 2006 across Europe as well as in China and Singapore, and was also involved in various initiatives to support women choosing technical careers.

Looking to 2007

Looking forward, HR will deploy the EADS "Leadership" principles across the Group to ensure development of a common management culture. And the development of key competencies will be furthered. More job rotations will be encouraged. The dialogue with the Works Councils and Trade Unions around potential Airbus and EADS reorganisations will be active. Overall, HR will continue to progress towards the goals identified in 2006 and to improve the quality of its delivery and support.

Corporate Social Responsibility

EADS continued to strengthen its CSR framework in 2006, introducing initiatives to build on and reinforce those of previous years. The Group is strongly committed to meeting its social and ethical responsibilities. This is more important than ever in challenging times.



For more detailed information on EADS CSR policies and related practises, please refer to:

Book **3**



BUSINESS, LEGAL AND CORPORATE RESPONSIBILITY 2006
Registration Document Part 2

Regaining confidence in sustainability

While the events of 2006 raised questions, EADS remains committed to a sustainable and balanced relationship with stakeholders. The entire Group is committed to the principles and values in its Code of Ethics, as well as to its Corporate Social Responsibility (CSR) policies.

Creating the foundations for further CSR challenges

In 2006, EADS started new initiatives to strengthen the foundations of its CSR framework.

The Group strengthened its export control policies and procedures. To support the reshaped corporate technology office, EADS continued to establish programmes of cooperation with universities and scientific organisations to draw on competencies wherever they exist. Furthermore, a sourcing network was created to define tools aimed at cascading down and monitoring CSR requirements in

the supply chain. From a strategic perspective, EADS reviewed its compliance activities and processes. In addition to its well established internal compliance processes, EADS is considering further developing its compliance approach by creating a comprehensive Group-wide compliance organisation. Given the specific context of Airbus restructuring and of the evolution of the EADS organisation, the already well established social dialogue procedures have been reinforced.

Incorporating CSR policies into daily business

Some evidence showed that CSR policies are increasingly embedded in the way EADS conducts its business. From an environmental perspective, the number of ISO 14001/EMAS certified sites grew from 29 to 52. And a survey conducted by Novethic and Service Central de Prévention de la Corruption named EADS as one of only seven companies in the French CAC 40 Index meeting international ethical standards.



Julia Kempe, researcher at the University of Paris, won in 2006 a scientists' prize co-sponsored by the EADS Corporate Foundation

Social Responsibility by encouraging female scientists

Julia Kempe: Winner of the 2006 Irène Joliot-Curie Prize

For Julia Kempe, prizes are no rarity. Over time, this former student of one of East Germany's special schools for gifted children has collected many well-deserved distinctions for her research in computer science. These have been awarded by well-known academic institutions and government bodies from across the world.

But the Irène Joliot-Curie Prize, which she won last November as the best young female researcher of 2006, is one of the most prestigious. It is dedicated to encouraging young women in science – a cause that is close to her heart.

“I think the Irène Joliot-Curie Prize is one of several things that would help a woman overcome her own doubts,” says Kempe. She adds: “Seeing other women being successful helps. There should be more outreach activities and events for women. I think women still need a lot more encouragement.”

The prize, which is co-sponsored by the EADS Corporate Foundation and the French Ministry of Higher Education and Research is intended to reward female scientists for exceptional achievements. Its purpose is also to encourage young women to embark on scientific careers. While the reward is a cash sum of € 10,000, its real value is the associated prestige.

Successful career as a scientist

Aged 33, Kempe has worked or studied at many of the world's leading faculties in the field of computer science. She is currently a researcher at the University of Paris in Orsay, but has previously attended leading universities in Australia, Austria, France, Israel and the United States.

Kempe's studies began when she was selected at the age of 11 to study mathematics and physics in East Germany. She remarks that being female was no disadvantage; her potential was regarded as exactly the same as that of her male classmates. At the age of 17, however, one year after the Berlin Wall fell, she moved with her parents to Austria. There, women were not expected to study mathematics or sciences. France, she observes, is far more egalitarian.

Mixity to work better

Yet there are still relatively few women in the classes she teaches at the university. “I do not know why this is the case,” she says. “Maybe it is the lack of role models. When I see young women I always try to show them that they have their place in research and that mixity creates better working environment.”

Kempe's work focuses on the emerging field of quantum computing. She develops quantum algorithms which should ultimately lead to the first quantum computer. If this is achieved, it will lead to far more powerful computers than those of today.

Meanwhile, this most recent prize may help her career to progress in practical ways. “One of the previous winners told me at the awards ceremony that all of her colleagues were aware of this prize,” she says. “I do not think it helped in the sense that she got promoted but it made her life a little easier. She said the real hurdle in a woman's career was when it came to getting a leadership position.”

PAMELA: new dimension in environmental care

Pioneering integrated life cycle management of aircraft

More than 6,000 aircraft are due to reach end of life over the next 20 years and the question of how to deal with these old aircraft in a way that keeps our environmental footprint minimal cannot be avoided.

Airbus tackles this major environmental issue with an innovative project to experiment state-of-the-art procedures in deconstructing and recycling the vast majority of valuable materials and components, eliminating any potential hazards that could adversely affect environment or public safety.

The project is called PAMELA (standing for Process for Advanced Management of End-of-Life Aircraft) and is located at Tarbes airport, in southwestern France. The purpose is to establish a benchmark for environmental best practices for recycling and re-using 85 to 95% of an aircraft.

All the practicalities of dismantling, recycling and re-using are being tested on an old A300 that started to be taken apart in February 2006. Completion of the whole process is scheduled by year end.

PAMELA is also about learning how to design aircraft that will be easy to dismantle. As such, it will contribute to setting new standards in sustainable management of aircraft, paving the way for other initiatives to follow. "We want to create a centre of excellence from which knowledge can be further disseminated," explains Bruno Costes, Airbus Director Environmental Affairs, Industrial Coordination.

PAMELA is part of the European Commission's LIFE programme. Under Airbus's leadership, the project brings together SITA France, EADS Sogerma Services, EADS Innovation Works and the Préfecture des Hautes Pyrénées. Aircraft knowledge is thus combined with the long-standing expertise of SITA France in sorting and processing waste.

"The engineers in our design offices already do take into account the environmental parameters right from the early stages of the design process, thanks to an effective Environment Management System," says Costes.

The lessons learned will be used in the early design of the next generation of aircraft to facilitate end-of-life management. "Working with experts in recycling enables us to incorporate even more eco-friendly parts in the design of our aircraft, thereby improving the whole environmental performance over the entire aircraft lifecycle," concludes Costes.



Dismantling and deconstruction of the A300 is well underway. Initially, the preliminary decommissioning phase involves draining the aircraft of dangerous fluids and decontamination. This is important for making the process safe and environmentally friendly. Disassembling and dismantling the various parts (engines, pylons, landing gear, avionic boxes, flight controls, batteries and hydraulic pumps) can then be performed.

All of these parts are transferred to a dedicated building for material separation. Aluminium alloys, steel, copper, titanium and other metals are sorted into separate containers for processing through appropriate dedicated circuits. Plastics are handled similarly. While there are few composites in this type of aircraft, research is currently being conducted to further develop treatments for these materials and to promote innovative ways of recycling them.

