

# Report of the Board of Directors

(issued as of 8 March 2011)

## Dear Shareholders,

This is the Report of the Board of Directors (the “Board Report”) on the activities of European Aeronautic Defence and Space Company EADS N.V. (the “Company” or “EADS” and together with its subsidiaries, the “Group”) during the 2010 financial year, prepared in accordance with Dutch regulations.

For further information and detail regarding EADS’ activities, finances, financing, risk factors and corporate governance, please refer to the EADS website at [www.eads.com](http://www.eads.com).

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# 1. General Overview

With consolidated revenues of €45.8 billion in 2010, EADS is Europe's premier aerospace and defence company and the second largest aerospace and defence company in the world. In terms of market share, EADS is among the top two manufacturers of commercial aircraft, civil helicopters, commercial space launch vehicles and missiles, and a leading supplier of military aircraft, satellites and defence electronics. In 2010, it generated approximately 73% of its total revenues in the civil sector and 27% in the defence sector.

EADS organises its businesses into the following four operating Divisions: (i) Airbus (including Airbus Commercial and Airbus Military), (ii) Eurocopter, (iii) Astrium and (iv) Cassidian.

## 2. Main Events for 2010

2010 was a year of substantial progress for EADS, with a strengthening recovery in the commercial aircraft market, reflected in Airbus new orders and deliveries, and a new agreement reached with launch customers which secures the future of the Company's A400M programme. In the face of pressure on government budgets and a slower recovery in the commercial helicopter market, EADS' Divisions took further steps to strengthen their competitive position, investing in new products and capacity and driving efficiency programmes. The Company's initiative to boost engagement among its 120,000 employees showed first improvements in 2010, as demonstrated by the results of the second annual employee engagement survey.

Revenues in 2010 reached a new high with €45.8 billion. They increased by 7 percent thanks to growth from both volume and mix effects across core business which more than offset a negative foreign exchange impact of around €500 million.

For the full year 2010, EADS reported an EBIT\*<sup>1</sup> of €1.231 billion. The EBIT\* before one-off of around €1.3 billion benefited from the underlying performance in Airbus legacy programmes and other core business activities. On 31 December 2010, the order book of EADS reached €448.5 billion. The Net Cash position of €11.9 billion is higher than anticipated, thanks to better performance and higher order intake.

In 2010 the order intake amounted to €83.1 billion, driven by the improved momentum in commercial aviation. Institutional markets including helicopters, defence and public budgets have to be monitored.

In its 10<sup>th</sup> anniversary year, the Group achieved significant milestones on a number of key programmes. The Customer Nations and EADS have concluded negotiations on the overall A400M discussions. Following the approval in France and Germany, negotiations on the export levy facility (ELF) scheme are to be finalised with some Customer Nations and are targeted for completion in 2011. In the meantime, the programme is delivering results with four development aircraft flying. The A400M maturity gate milestone was passed in February 2011, which clears the way for the start of series production. Civil certification is planned for 2011.

Manufacturing of the first A350 XWB began, while the A330 Multi-Role Tanker Transport (**MRTT**) received civil and military certification. Deliveries of the A380 increased, as did deliveries on the helicopter programmes NH90 and Tiger. The Ariane 5 launcher completed its 41<sup>st</sup> consecutive successful take-off. Finally, the Company executed a successful rebranding of EADS and its Divisions in September 2010, which reflects the unity and the strength of the Group.

To adapt to changes in the market environment, Eurocopter and Astrium drove transformation programmes (respectively called Shape and Agile). These programmes aim to prepare the business for sustainable future growth in a more competitive marketplace.

Power8, Airbus' turnaround programme launched in 2007, overachieved on its target of €2.1 billion of gross annual savings against the projected cost base. Airbus is channelling the momentum created into the follow-on programme, Power8 Plus. Launched in 2008, Power8 Plus aims at adding a further €650 million in gross annual savings for Airbus and an additional €350 million for the rest of the Group by the end of 2012. "Future EADS", launched at the end of 2008 and aiming at better integrating the organisational structure, improving the decision making processes and saving costs was progressing as planned in 2010. Other cost saving initiatives are currently being reviewed with effect up to the end of 2014.

Following the financial crisis, the global economy returned to growth faster than expected in 2010, with emerging markets driving the recovery. Continued financial market volatility shows how fragile economic recovery remains in developed markets, with the capital markets questioning the ability of sovereign nations to repay their debts. Also, despite some short term exchange rate improvement in 2010, persistent US dollar weakness has continued to disadvantage EU companies with a cost base

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<sup>1</sup> EBIT pre goodwill impairment and exceptionals

mainly in euros still whereas US manufacturers continue to derive benefit from more attractively priced exports.

In contrast to 2009, the commercial aviation business experienced a significant recovery in passenger demand and a return to profitability in 2010. However, there were significant regional differences, with Asian Pacific carriers contributing nearly half of the profit, while European airlines narrowly avoided a loss. Aircraft manufacturers succeeded in maintaining solid order books built over the preceding years through careful backlog management. Emerging markets were also driving additional demands that did not exist in the past. Defence and institutional activities which are normally more resilient to downturns were put under scrutiny, especially in Europe as well as in the US whereas in areas such as the Middle-East, defence spending has increased.

While European defence budgets are expected to experience cuts over the coming years, the impact on industry is still unclear. The need for some EU countries to reduce public sector spending but still maintain defensive capabilities has driven governments to look for ways to mitigate the impact on defence budgets. Compromises need to be found between maintaining procurement budgets on one hand and considering adaptations of the operational budgets on the other. Export of already domestic sales to avoid cuts in current contracts is also an option which has already been adopted by some EU players.

Governments may pursue further outsourcing of defence related services to industry players to strive for better value for tax payer's money. Additionally, sustained growth in security spending both from government and private sectors has been driven by the need to respond effectively to emergency response requirements such as large-scale natural disasters, fires, flooding and earthquakes, as well as asymmetric terrorist threats.

Airbus generated revenues of €30 billion in 2010, representing an increase of 7% compared to 2009. In 2010, Airbus achieved a new company record of 510 commercial aircraft deliveries to 94 customers (including 19 new ones). Deliveries included 401 A320 family aircraft, 91 A330/A340s and 18 A380s. Airbus Military delivered 20 light and medium military transport aircraft (CN235 and C295). Airbus outperformed its order intake target by recording a total of 644 gross commercial aircraft orders, thereof 452 A320 family aircraft and 32 new orders for the A380. The A350 XWB continued winning key strategic campaigns during 2010, boosting total orders for the family to 583 and the number of customers to 36 by year end. In 2010, Airbus launched the A320neo (new engine option), offering 15% less fuel burn compared to the current A320. The A400M accomplished more than 1,000 flight hours in over 300 test flights with four development aircraft, while moving ahead towards an imminent start of series production. Civil certification is planned to be obtained before the end of 2011. The A330-MRTT also passed a milestone achieving civil and military certification in 2010. Delivery of the first two MRTTs to the Royal Australian Air Force (RAAF) is in the final stages.

Eurocopter generated revenues of €4.8 billion in 2010, representing an increase of 6 % compared to 2009. 527 helicopters were delivered to customers in 2010 and new net orders totalled 346 helicopters. These orders, well balanced between civil (51%) and military activities (49%), included key Super Puma family contracts for Malaysia and Mexico and strategic Ecureuil orders in Russia and the US. Support and service activities were robust and accounted for 36% of revenues in 2010. Despite another challenging year for the industry, Eurocopter remained a leader on the worldwide civil and paraprofessional market with a 50% market share. 2010 was also a year of progress for Eurocopter's military programmes: 28 NH90 and 15 Tiger helicopters were delivered in 2010, twice as many as in 2009. The Tiger proved its operational reliability in Afghanistan with the French forces, while three new customers took delivery of their first NH90 helicopter during the year. A key innovation milestone was achieved in 2010 with the successful first flight of the X3 demonstrator, a new generation of high-speed helicopter. Eurocopter continued to expand its global footprint during the year.

At Astrium revenues in 2010 rose by 4% to €5 billion despite a difficult economic climate. New orders amounted to €6 billion, taking the order book to €15.8 billion at the end of the year. The Ariane 5 launcher continued to prove its reliability by completing six launches in one year, including three in two months. The Ariane 5 achieved its 41<sup>st</sup> successful launch in a row. Astrium is currently preparing the next generation of launcher, through the Ariane 5 ME (Mid-life Evolution) programme. During 2010, Astrium delivered 10 satellites to customers and signed contracts for eight new satellites: three for telecommunication and five for Earth observation. Within its defence activities, the M51 acceptance launch was successfully carried out. In services, orders almost tripled compared to 2009.

Revenues at Cassidian increased by 11% to €5.9 billion, driven by growth in Eurofighter, an increase in contributions from the newer security segments and missile businesses growth. Profitability increased slightly, despite higher self-funded research and development for future business and a charge resulting from the UK's cancellation of the FiReControl security contract. Regarding unmanned aircraft systems (UAS), 2010 was marked by the successful first flight of the Euro Hawk and completion of a series of four test flights for the Barracuda demonstrator, which demonstrated the ability to fly in civil airspace. Cassidian accomplished the delivery of the complete second batch of 35 DRAC systems, while also progressing with its self-funded Talarion programme. At Cassidian Systems, the Saudi Arabian border surveillance programme successfully passed test cases for the Northern border in 2010. With this programme, Cassidian confirms its competitive position as lead systems integrator for global security projects. The Division also expanded its security capabilities through the extension of TETRA networks in India and Bulgaria. Cassidian Electronics was awarded a new order for the development of the next generation of radar for the Eurofighter aircraft.

EADS continues to pursue the Vision 2020 goal of balancing revenues from the Airbus commercial aviation business with revenues from other Divisions. To prepare the future of the Company, EADS is investing in further research and development, with a particular focus on eco-efficiency, and exploring new growth opportunities on global markets.

In 2010, EADS proved its resilience to the economic crisis and is now emerging stronger. 2010 was a year of progress that helped pave the way for the development of EADS in its second decade.

## 3. Share Capital and Stock Price Evolution

### 3.1. Shareholding and voting rights

#### Issued Share Capital

As of 31 December 2010, EADS' issued share capital amounted to €816,402,722 divided into 816,402,722 shares of a nominal value of €1 each. The issued share capital of EADS as of such date represents 27.2% of the authorised share capital of €3,000,000,000 comprising 3,000,000,000 shares. The holder of one issued share has one vote and is entitled to the profit in proportion to his participation in the issued share capital.

#### Modification of Share Capital or Rights Attached to Shares

Unless such right is limited or eliminated by the shareholders' meeting as described below, holders of shares have a pre-emptive right to subscribe for any newly issued shares pro rata to the aggregate nominal value of shares held by them, except for shares issued for consideration other than cash and shares issued to employees of the Company or of a Group company. For the contractual position as to pre-emption rights, see "- 3.2. Relationship with Principal Shareholders".

The shareholders' meeting has the power to issue shares. The shareholders' meeting may also authorise the Board of Directors for a period of no more than five years, to issue shares and to determine the terms and conditions of share issuances.

The shareholders' meeting also has the power to limit or to exclude pre-emption rights in connection with new issues of shares, and may authorise the Board of Directors for a period of no more than five years, to limit or to exclude pre-emption rights. All resolutions in this context must be approved by a two-thirds majority of the votes cast during the shareholders' meeting in the case where less than half of the capital issued is present or represented at said meeting.

Pursuant to the shareholders' resolution adopted at the annual general meeting ("**AGM**") held on 27 May 2009, the powers to issue shares and to grant rights to subscribe for shares which are part of the Company's authorised share capital and to limit or exclude preferential subscription rights for existing shareholders have been delegated to the Board of Directors provided that such powers shall be limited to 1% of EADS' authorised share capital. Such powers have been granted for a period expiring at the AGM to be held on 26 May 2011. Shareholders will therefore be asked to renew this authority at such AGM.

At the AGM held on 1 June 2010, the Board of Directors was authorised, for a period of 18 months from the date of such AGM, to repurchase shares of EADS, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, EADS would not hold more than 10% of EADS' issued share capital. Shareholders will be asked to renew this authority at the AGM to be held on 26 May 2011.

The shareholders' meeting may reduce the issued share capital by cancellation of shares or by reducing the nominal value of the shares by means of an amendment to the Articles of Association of EADS (the "Articles of Association"), the latter requiring the approval of at least two-thirds of the votes cast at the general meeting.

#### Securities Granting Access to the Company's Capital

Except for stock options granted for the subscription of EADS shares (see "Notes to the Consolidated Financial Statements (IFRS) — Note 35: Share-Based Payment"): there are no securities that give access, immediately or over time, to the share capital of EADS.

The table below shows the total potential dilution that would occur if all the stock options issued as at 31 December 2010 were exercised:

	Number of shares	Percentage of diluted capital	Number of voting rights	Percentage of diluted voting rights*
Total number of EADS shares issued as of 31 December 2010	816,402,722	97.3 %	813,207,546	97.3 %
Total number of EADS shares which may be issued following exercise of stock options	22,898,099	2.7 %	22,898,099	2.7 %
Total potential EADS share capital	839,300,821	100%	836,105,645	100%
(*) The potential dilutive effect on capital and voting rights of the exercise of these stock options may be limited as a result of the Company's share purchase programmes and in the case of subsequent cancellation of repurchased shares.				

## Changes in the Issued Share Capital in 2010

During 2010, EADS repurchased in aggregate 2,528,772 shares directly or pursuant to contracts entered into with a bank to purchase EADS shares on EADS' behalf through derivative products in order to compensate the dilution effect resulting from the issuance of shares following the exercise of stock options under the Company's various stock option plans. Shareholders will be asked to approve the cancellation of 78,850 treasury shares at the AGM to be held on 26 May 2011.

In addition, in 2010, EADS employees exercised 297,661 stock options granted to them through the stock option plans launched by the Company in 2002 and 2003. As a result, 297,661 new shares were issued in the course of 2010.

Finally, the Board approved the replacement of the normal employee share ownership plan for 2010 with a worldwide 10 Years EADS – Special Anniversary Free Share Plan for about 120,000 eligible employees in 29 countries. Each eligible employee (including the Chief Executive Officer) was offered a grant of 10 free shares in EADS, resulting in the distribution of 1,184,220 shares in total. Such shares were distributed out of treasury and therefore had no impact on the issued share capital.

## Shareholding structure and development in 2010

EADS combined the activities of Aerospatiale Matra ("Aerospatiale Matra" or "ASM"), Daimler Aerospace AG (Dasa AG) (with the exception of certain assets and liabilities) and Construcciones Aeronauticas SA (CASA) pursuant to a series of transactions completed in July 2000.

In this document, the term "Completion" relates to the July 2000 completion of the contributions made by Aerospatiale Matra, Dasa AG and Sociedad Estatal de Participaciones Industriales (SEPI) (a Spanish stateholding company) to EADS to combine such activities into EADS.

The term "Indirect EADS Shares" relates to the EADS shares held by Daimler AG (Daimler), SEPI and Société de Gestion de l'Aéronautique, de la Défense et de l'Espace (Sogead), for which EADS Participations B.V. exercises all the attached voting rights, as well as, for Lagardère SCA (Lagardère) and Société de Gestion de Participations Aéronautiques (Sogepa), or the companies of their group, the number of EADS shares held indirectly via Sogead, reflecting by transparency, their respective interest in Sogead.

Unless the context requires otherwise, the shareholdings of Dasa AG in EADS are referred to in this document as shareholdings of Daimler, and the rights and obligations of Dasa AG pursuant to the agreements described herein are referred to as rights and obligations of Daimler.

As at 31 December 2010, 22.46% of EADS' share capital was held by Dasa AG, which is a 66.67% subsidiary of Daimler Luft- und Raumfahrt Holding AG (DLRH), a 99.90% subsidiary of Daimler. The remaining 33.33% of Dasa AG is held by a consortium of private and public-sector investors. Sogead, a French partnership limited by shares (société en commandite par actions) whose share capital, as at 31 December 2010, is held 66.67% by Sogepa (a French state holding company) and 33.33% by Désirade (a French société par actions simplifiée wholly owned by Lagardère), held 22.46% of the share capital of EADS. Thus, 44.92% of the share capital of EADS was held by Daimler and Sogead who jointly control EADS through a Dutch law contractual partnership managed by EADS Participations B.V. (the "Contractual Partnership"). SEPI, which is a party to the Contractual Partnership, held 5.47% of the share capital of EADS. The public (including EADS employees) and the Company held, respectively, 49.16% and 0.39% of the share capital of EADS. The République Française (the "French

State”) held directly 0.06% of the share capital, such shareholding being subject to certain specific provisions.

In April 2006, Daimler reduced by 7.5% its stake in EADS and Lagardère issued bonds redeemable into EADS shares, as a result of which it is committed to reduce its stake in EADS by 2.5% in June 2007, 2.5% in June 2008 and 2.5% in June 2009, i.e a total of 7.5%.

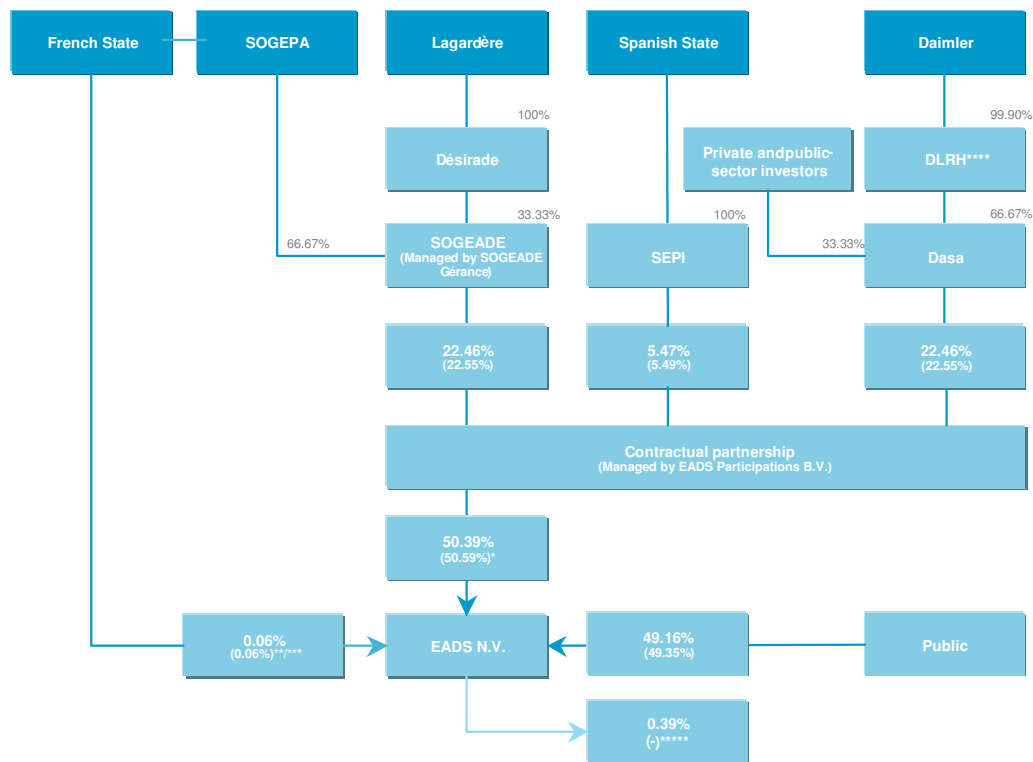
On 9 February 2007, Daimler reached an agreement with a consortium of private and public-sector investors by which it effectively reduced its shareholding in EADS from 22.5% to 15%, while keeping and maintaining the balance of voting rights between Germany and French controlling shareholders. Daimler has placed its entire 22.5% equity interest in EADS into a new company controlled by Daimler, in which the consortium of investors has acquired a one-third interest through a special-purpose entity. This effectively represents a 7.5% stake in EADS. Daimler continues to control the voting rights of the entire 22.5% package of EADS shares. Daimler has the option of dissolving the new structure on 1 July 2010 at the earliest. If the structure is dissolved, Daimler has the right either to provide the investors with EADS shares or to pay cash compensation. If EADS shares are provided, the German State, and the French State and Lagardère through Sogéade, will be entitled to preempt such EADS shares to retain the balance between the German and the French side.

On 26 January 2009, Lagardère and Natixis, the sole subscriber to and sole holder of the outstanding mandatory exchangeable bonds issued by Lagardère in 2006, signed an amendment to the subscription contract whereby they agreed, on the initiative of Natixis, to bring forward the redemption date of the mandatory exchangeable bonds—and consequently, the delivery date of the third instalment of EADS shares—from 25 June 2009 to 24 March 2009. Under the terms of this amendment, Lagardère delivered 20,370,000 EADS shares, representing 2.5% of the capital and voting rights of EADS, to Natixis on 24 March 2009.

On 19 March 2010, Daimler and the consortium of private and public-sector investors confirmed to continue the agreement reached on 9 February 2007 concerning the equity interests and voting rights in EADS (as discussed above). At Germany’s Federal Chancellery on 16 March 2010, Daimler and the investors stated their willingness to continue the existing agreement without any changes. As a result, Daimler continues to hold 22.5% of the voting rights in EADS while its economic interest is still 15%. Thus, the existing balance of voting rights between German and French shareholders remains unchanged.

The diagram below shows the ownership structure of EADS as at 31 December 2010 (% of capital and of voting rights (in parentheses) before exercise of outstanding stock options granted for the subscription of EADS shares). See “Notes to the Consolidated Financial Statements (IFRS) — Note 35: Share-Based Payment”.





(\*) EADS Participations B.V. exercises the voting rights attached to these EADS shares pledged by Sogead, Daimler and SEPI who retain title to their respective shares.

(\*\*) The French State exercises the voting rights attached to these EADS shares (such shares being placed with the Caisse des Dépôts et Consignations) in the same way that EADS Participations B.V. exercises the voting rights pooled in the Contractual Partnership.

(\*\*\*) Shares held by the French State following the distribution without payment of consideration to certain former shareholders of Aerospatiale Matra as a result of its privatisation in June 1999. All the shares currently held by the French State will have to be sold on the market.

(\*\*\*\*) DLRH is 99.90% held by Daimler; the balance is held by individual minority shareholders.

(\*\*\*\*\*) As at 31 December 2010, the Company holds, directly or indirectly through another company in which the Company holds directly or indirectly more than 50% of the share capital, 3,195,176 of its own shares. The EADS shares owned by the Company itself do not carry voting rights.

For the number of shares and voting rights held by members of the Board of Directors and Executive Committee, see "Notes to the Company Financial Statements – Note [11]: Remuneration".

## Right to attend Meetings

Each holder of one or more shares may attend shareholders' meetings, either in person or by written proxy, to speak and to vote according to the Articles of Association.

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

Following the implementation of Directive 2007/36/EC (the "**Shareholders Directive**") into Dutch law on 1 July 2010, the persons who have the right to attend and vote at shareholders' meetings are those who are so on record in a register designated for that purpose by the Board of Directors on the twenty-eighth day prior to the day of the shareholders' meeting (the "**Registration Date**"), irrespective of who may be entitled to the shares at the time of that meeting.

Any person who is entitled to exercise the rights set out in the above paragraph (either in person or by means of a written proxy) and is attending the meeting from another location in such a manner that the person acting as Chairman of the meeting is convinced that such a person is properly participating in

the meeting, shall be deemed to be present or represented at the meeting, shall be entitled to vote and shall be counted towards a quorum accordingly.

As a prerequisite to attending the shareholders' meeting and to casting votes, the Board of Directors, or alternatively an entity or person so designated by the Board of Directors, should be notified in writing by each holder of one or more shares and those who derive the aforementioned rights from these shares, not earlier than the Registration Date, of the intention to attend the meeting. Ultimately this notice must be received by the Board of Directors, or alternatively an entity or person so designated by the Board of Directors, on the day mentioned in the convening notice.

Holders of shares that are registered in the shareholders' register kept in Amsterdam have the option of holding them through Euroclear France S.A. In this case the shares are registered in the name of Euroclear France S.A.

Shareholders holding their EADS shares through Euroclear France S.A. who wish to attend general meetings will have to request from their financial intermediary or accountholder an admission card and be given a proxy to this effect from Euroclear France S.A. in accordance with the instructions specified by the Company in the convening notice. For this purpose, a shareholder will also be able to request that it be registered directly (and not through Euroclear France S.A.) in the register of the Company. However, only shares registered in the name of Euroclear France S.A. may be traded on stock exchanges.

In order to exercise their voting rights, the shareholders will also be able, by contacting their financial intermediary or accountholder, to give their voting instructions to Euroclear France S.A. or to any other person designated for this purpose, as specified by the Company in the convening notice.

Pursuant to its Articles of Association, EADS may provide for electronic means of convocation, attendance and voting at the shareholders' meetings. The introduction of such electronic means will depend on the availability of the necessary technical means and the market practice.

## Mandatory public offer

### Dutch law

In accordance with Dutch law, shareholders are required to make a public offer for all issued and outstanding shares in the Company' share capital if they — individually or acting in concert (as such terms are defined below), directly or indirectly — have 30% or more of the voting rights (significant control) in the Company. In addition to the other available exemptions listed below, the requirement to make a public offer does not apply to persons, who at the time the takeover provisions under Dutch law came into force, already held — individually or acting in concert — 30% or more of the voting rights in the Company.

Under Dutch law, natural persons, legal entities or companies are “acting in concert” if they cooperate on the basis of an agreement with the objective to acquire significant control (as defined above) in the target company, or if they cooperate with the target company with the objective to prevent the success of an announced public offer for the shares in such target company. The following categories of natural persons, legal entities or companies are deemed to be “acting in concert” under Dutch law: (i) legal entities or companies that form a group of companies, (ii) legal entities or companies and their subsidiaries, and (iii) natural persons and their subsidiary companies.

In addition to the exemption stated above, the obligation to make a public offer does not apply to the natural person, legal entity or company that, amongst others:

- Acquires significant control as a result of declaring unconditional a public offer made for all shares (or depositary receipts) in the target company;
- Is a legal entity, independent from the target company, that acquires significant control after a public offer has been announced by a third party, provided that such entity (i) holds the shares in the target company for a maximum period of two years and for purposes of protection of the target company and (ii) the corporate objects of such entity are to preserve the interests of the target company;

- Is a legal entity, independent from the target company, which has issued depositary receipts for the shares in the target company;
- Acquires significant control as a result of: (i) an intra-group transfer of the shares representing significant control; or (ii) a transfer between a parent company and its subsidiary;
- Acquires significant control acting in concert with one or more other natural persons, legal entities or companies, in which case the obligation to make a public offer lies with the natural person, legal entity or company that can exercise most of the voting rights in the general meeting of shareholders of the target company;
- Acts as a custodian (if and to the extent it cannot exercise any voting rights in its sole discretion).

The obligation to make a public offer also does not apply if:

- The natural person, legal entity or company, after acquiring significant control, loses such control within a thirty day grace period, unless (i) loss of control is due to a transfer to a natural person, legal entity or company to which one of the exemptions set out above applies, or (ii) the acquirer of the significant control has exercised its voting rights during this thirty day period; or
- The target company's general meeting of shareholders agrees upfront with the acquisition of significant control - and any subsequent acquisition of shares - by a third party with 95% of votes cast in favour of such proposal, excluding any votes by such third party and any of its concert parties.

Under Dutch Law, a minority shareholder may also make a request for his shares to be purchased by an offeror who holds at least 95% of the issued share capital and the voting rights. This claim must be brought before the Enterprise Chamber of the Court of Appeals in Amsterdam within the three-month period after the closing of the acceptance period of the public offer.

### **Articles of Association**

Pursuant to Article 15 of the Articles of Association, in the event that a direct or indirect acquisition of shares in the Company results in a person acting alone or in concert holding shares or voting rights where the control over the number of shares or votes reaches or exceeds 33 1/3% of the issued share capital of the Company then such person(s) is (are) required to make an unconditional public offer to all shareholders to acquire all of their shares or to procure that such an offer is made. Such offer must comply with all of the applicable regulatory or other legal requirements in each jurisdiction in which the Company's shares are listed.

Pursuant to Article 16 of the Articles of Association, in the event of a failure to launch such an offer (or if the offer does not satisfy the relevant legal or regulatory requirements in each of the jurisdictions where the Company's shares are listed) within two months after notification to the Company of shareholdings reaching or exceeding 33 1/3% or failing such notification, within a period of 15 days of receipt of notice from the Board of Directors confirming the obligation to make the public offer, then any person(s) who is (are) required to make the offer shall within the period specified by the notice sent by the Board of Directors exchange for depositary receipts to be issued by the Stichting Administratiekantoor EADS (the "Foundation"), such percentage of shares they hold over and above the 33 1/3% of the shares issued by the Company (the "Excess Percentage"). From the date specified in the notice sent by the Board of Directors, the right to attend meetings, to vote and to receive dividends shall be suspended in respect of the Excess Percentage. If, within a period of 14 days from a further notice from the Board of Directors, the person required to exchange his shares representing his Excess Percentage for depositary receipts still has not done so, then the Company is irrevocably authorised to exchange such shares for depositary receipts issued by the Foundation. The constitutive documents of the Foundation provide that the Foundation shall not have the right to attend shareholders' meetings of the Company as a shareholder, to speak at such meetings and to exercise the voting rights attached to the shares it holds, except if, in the view of the board of the Foundation, such action is required for the performance of the mandatory offer provisions in the Articles of Association.

The obligation to make a public offer does not apply in the following situations (Article 17 of the Articles of Association):

- To a transfer of shares to the Company itself or to the Foundation;

- To a securities custody, clearing or settlement institution acting in that capacity, provided that the provisions of Article 16 of the Articles of Association described above shall be applicable where shares are held for persons acting in breach of the provisions of Articles 15 and 16 of the Articles of Association described above;
- To a transfer of shares by the Company or to an issue of shares by the Company on a merger or on an acquisition by the Company of another company or business;
- To a transfer of shares from one party to another party who is a party to an agreement as envisaged under Dutch law to define “concert parties” where the agreement is entered into before 31 December 2000 (as amended, supplemented or replaced by a new agreement by the admission of one or more new parties or the exclusion of one or more parties) except that this exemption will not apply to a new party that individually or with its subsidiaries and/or group companies holds at least 33 1/3% of the control over shares or votes in the Company; this exemption is intended to exclude the parties to the Participation Agreement (See “3.4 Relationship with Principal Shareholders”) as amended, supplemented or replaced by a new agreement by the admission of one or more new parties or the exclusion of one or more parties from the obligation to make the mandatory offer in the event of a transfer of shares between themselves; or
- To a transfer by a shareholder to a subsidiary in which it holds more than 50% or by a shareholder to a company which holds more than 50% in such transferring shareholder.

## Amendments to the Articles of Association

According to the Articles of Association, resolutions to amend the Articles of Association require a two-thirds majority of the votes validly cast at a general meeting of shareholders. The proposal containing the literal text of the proposed amendment must be available for inspections by shareholders at EADS' headquarters and at a location in Amsterdam to be determined by the Board of Directors, from the day the meeting is convened until after the end of the meeting.

To align the Articles of Association with the new requirements of the Shareholders Directive as implemented into Dutch law, shareholders will be asked to approve certain amendments to the Articles of Association at the AGM to be held on 26 May 2011. The proposed amendments will be described in detail in the convening notice and related meeting documentation for this AGM, which will be published on the Company's website ([www.eads.com](http://www.eads.com)) at least 42 days before the day of the AGM in accordance with the Shareholders Directive.

## 3.2. Relationship with principal shareholders

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

The principal agreements governing the relationships between the founders of EADS are (i) an agreement (the “Participation Agreement”) entered into on Completion between Daimler, Dasa AG, Lagardère, Sogepa, Sogeade and SEPI, and (ii) a Dutch law Contractual Partnership agreement entered into on Completion between Sogeade, Dasa AG, SEPI and EADS Participations B.V. (the “Contractual Partnership Agreement”), which repeats certain terms of the Participation Agreement and a certain number of other agreements (notably, a shareholder agreement (the “Sogeade Shareholders' Agreement”) entered into on Completion between Sogepa and Lagardère and an agreement between the French State, Daimler and DLRH). EADS Participations B.V. is a Dutch private company with limited liability and is the managing partner of the Contractual Partnership. The Indirect EADS Shares held by Daimler, Sogeade and SEPI have been pledged to EADS Participations B.V., which has been granted the exclusive power to exercise the voting rights attached to the pledged shares (including the right to attend and speak at shareholders' meetings) in accordance with the Contractual Partnership Agreement.

The agreements above contain, among other things, provisions relating to the following matters:

- The composition of the Boards of Directors of EADS, EADS Participations B.V. and Sogeaide Gérance (gérant commandité of Sogeaide);
- Restrictions on the transfer of EADS shares and Sogeaide shares;
- Pre-emptive and tag-along rights of Daimler, Sogeaide, Sogepa and Lagardère;
- Defences against hostile third parties;
- Consequences of a change of control of Daimler, Sogeaide, Lagardère, Sogepa or SEPI;
- A put option granted by Sogeaide to Daimler over its EADS shares in certain circumstances;
- Specific rights of the French State in relation to certain strategic decisions, regarding among other issues, EADS' ballistic missiles activity; and
- Certain limitations on the extent of the French State's ownership of EADS.

Further details on the agreements among the principal shareholders of EADS are set out below.

## Organisation of EADS Participations B.V.

The Board of Directors of EADS Participations B.V. has an equal number of Directors nominated by Daimler and by Sogeaide, respectively (taking into account proposals made by Lagardère in respect of the Sogeaide-nominated Directors). Daimler and Sogeaide each nominate two Directors, unless otherwise agreed, and the Daimler-Directors and the Sogeaide-Directors jointly have the right to nominate and to remove the Chairman and the Chief Executive Officer. In addition, SEPI has the right to nominate a Director, as long as the shareholding of SEPI in EADS is 5% or more but in any case until the AGM to be held in 2012. The Chairman shall either have French or German nationality and the Chief Executive Officer shall have the other nationality.

This structure gives Daimler and Sogeaide equal nominating rights in respect of the majority of the Directors of the decision-making body of EADS Participations B.V. All decisions of EADS Participations B.V.'s Board of Directors shall require the vote in favour of at least four Directors.

## Transfer of EADS Shares

Daimler, Sogeaide, SEPI, Lagardère and Sogepa each have the right to sell its EADS shares on the market, subject to the following conditions:

- If a party wishes to sell any EADS shares, it shall first sell its shares other than its Indirect EADS Shares before exercising its right to sell its Indirect EADS Shares in accordance with the provisions set out below;
- On the sale of Indirect EADS Shares, Daimler (in the case of a sale by Sogeaide), Sogeaide (in the case of a sale by Daimler) or Sogeaide and Daimler (in the case of a sale by SEPI) may either exercise a pre-emption right or sell its Indirect EADS Shares on the market in the same proportions as the respective Indirect EADS Shares of the relevant parties bear to each other;
- Any transfer of Indirect EADS Shares by either Sogepa or Lagardère is subject to a pre-emption right in favour of Lagardère or Sogepa, as the case may be. In the event that such pre-emption right is not exercised, the Indirect EADS Shares may be sold (i) to an identified third party subject to Lagardère's or Sogepa's consent (as the case may be) and also to Daimler's consent and (ii) if such consent is not obtained, the Indirect EADS Shares may be sold on the market, subject to Daimler's pre-emption right referred to above;
- Lagardère and Sogepa shall each have a proportional right to tag-along on a sale of its Indirect EADS Shares; and
- The pre-emption and tag-along rights of Lagardère and Sogepa referred to above do not apply to a transfer of EADS shares directly held by one of them.

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

## Control of EADS

In the event that a third party to which Daimler or Sogeadé objects (a “Hostile Third Party”) has a direct or indirect interest in EADS shares equal to 12.5% or more of the number of such EADS shares the voting rights of which are pooled through the Contractual Partnership (a “Qualifying Interest”), then, unless a Hostile Offer (as defined below) has been made by the Hostile Third Party or until such time as Daimler and Sogeadé agree that the Hostile Third Party should no longer be considered a Hostile Third Party or the Hostile Third Party no longer holds a Qualifying Interest, the parties to the Participation Agreement shall exercise all means of control and influence in relation to EADS to avoid such Hostile Third Party increasing its rights or powers in relation to EADS.

The parties to the Participation Agreement may accept an offer (whether by way of tender offer or otherwise) by a Hostile Third Party which is not acceptable to either Daimler or Sogeadé (a “Hostile Offer”), subject to provisions requiring, inter alia, the party wishing to accept, to first offer its EADS shares to Daimler and/or Sogeadé, in which case Daimler and/or Sogeadé may exercise their pre-emption rights in respect some or all of the EADS shares held by the party wishing to accept the Hostile Offer.

Any sale of EADS shares, other than the EADS Indirect Shares, by Daimler, Sogeadé or Lagardère, at a time when a Hostile Third Party is a shareholder and purchaser of EADS shares on the market, is subject to the pre-emption right of Sogeadé, Daimler and Sogepa respectively. In the case of a sale by Lagardère, if Sogepa does not exercise its right of pre-emption, Daimler has in turn a pre-emption right.

## Pledge over EADS’ Shares Granted to EADS Participations B.V.

Upon Completion and in order to secure their undertakings under the Contractual Partnership Agreement and the Participation Agreement, Sogeadé, Daimler and SEPI granted a pledge over their respective Indirect EADS Shares to EADS Participations B.V. for the benefit of EADS Participations B.V. and the other parties to the Contractual Partnership Agreement.

## Related party transactions

See “Notes to the Consolidated Financial Statements (IFRS) — Note 36: Related Party Transactions”.

## 3.3. Future Employee Share Ownership Plans and Long-Term Incentive Plan

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

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

Under ESOP and LTIP, the Board of Directors shall have the discretionary authority to offer shares and grant performance and/or restricted units to employees who, in the sole judgment of the Board of Directors, are eligible thereto and to subject such grant, as the case may be, to performance conditions; each unit giving right to payment in cash.

### Elements of ESOP and LTIP (Details)

For further descriptions of ESOP and LTIP programmes with additional information, see

- Item “4.5.1.2. Detailed Remuneration Policy”
- Item “4.5.4 Employee Share Ownership Plans”.



### 3.4. Share price evolution 2010

In 2010, EADS was the seventh best performer of the CAC 40 and outperformed the main indexes, CAC 40 and DAX, as well as the Dow Jones US Select Aerospace & Defense index. In a positive market environment, EADS benefited from a favourable dollar development, encouraging news on aircraft orders and the gradual derisking of the A400M and A380 programmes.

Early in the year, EADS share price benefited from a general market upturn. Following positive news on the continuation of the A400M programme, the EADS share rose strongly to €15.96 on 5 March, 2010. The share price decreased after EADS announced a more conservative than expected EBIT outlook for 2010 and, more generally, as markets became unsettled by sovereign debt issues. After returning to €13.56 on 7 May, the EADS stock rebounded strongly, however driven by positive market data. The weakening euro, which fell below US\$1.20 on 6 June supported the advance, as did the announcement of new aircraft orders, in particular the Emirates order for 32 A380s. A conservative EBIT outlook for 2011, announced in November with the nine months results, again brought the upwards trend to a brief halt, causing the share price to dip back to €16.68 on 23 November. In December, however, the share advanced again in a strong commercial environment.

On 31 December, 2010, the EADS share price closed at €17.44, having gained 23.82% over the year. During the same period the CAC 40 fell -3.34%.

### 3.5. Dividend policy

EADS' dividend policy is determined by the Board of Directors, which may consider a number of factors, including the Group's financial performance, future cash needs as well as the dividends paid by other international companies in the same sector. EADS cannot guarantee the amount of dividends that may be paid in respect of any financial year.

Based on an Earnings per Share (EPS) of € 0.68, the EADS Board of Directors proposes payment on 6 June 2011 of a dividend of € 0.22 cents per share to the Annual General Meeting of shareholders (exceptionally, due to the significant loss incurred in 2009, no dividend payment was made that year). The record date should be 3 June 2011.

It is the group ambition to gradually improve profitability in the mid-term which is the key indicator for a better dividend distribution in the future.

### 3.6. Shareholder Communication Policy

EADS continually strives to improve relations with its shareholders. In addition to communication with its shareholders at shareholder information sessions and the Annual General Meeting of Shareholders, EADS provides briefings on its annual, semi-annual and quarterly results during public conference calls which are accessible in real-time through its website. EADS also publishes annual, semi-annual and quarterly reports and presentations, as well as press releases and other information for investors which are available on its website.

From time to time EADS engages in communications with institutional investors or analysts via road shows, group or bilateral meetings, broker conferences and other events including investor forums, with presentations generally made available on EADS' website. The purpose of these meetings is to ensure that the investment community receives a balanced and complete view of the company's performance and the issues faced by the business, as well as to receive feedback from shareholders. At all times, the Company's policy is to act in strict compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

## 4. Corporate Governance

### 4.1. Management and control

#### 4.1.1. Composition, powers and rules

Pursuant to the Articles of Association, the Board of Directors is responsible for the management of the Company.

The Board of Directors consists of a maximum of eleven members appointed and removed by the shareholders' meeting. The Board of Directors adopted rules governing its internal affairs (the "Rules") at a Board of Directors meeting held on 7 July 2000. The Rules were amended at a Board of Directors meeting held on 5 December 2003 to take into account recommendations for changes to corporate governance. The Rules were further amended at a Board of Directors meeting held on 22 October 2007, to take into account the corporate governance modifications approved during the Extraordinary General Meeting of Shareholders held the same day.

The Rules specify the composition, the role and the key responsibilities of the Board of Directors, and also determine the manner of appointment and the responsibilities of the Chairman and the Chief Executive Officer. The Rules also specify the creation of three committees (the Audit Committee, the Remuneration and Nomination Committee and the Strategic Committee) and specify their composition, role and operating rules.

The parties to the Participation Agreement (as amended on 22 October 2007 and as referred to in paragraph 3.4 hereof) have agreed that the voting rights attached to the Indirect EADS Shares shall be exercised by EADS Participations B.V. to ensure that the Board of Directors of EADS comprises the Directors of EADS Participations B.V. and four additional independent Directors.

According to the Rules, an independent Director is defined as "a Director who is not an officer, director, employee, agent or otherwise has any significant commercial or professional connection with either the Dasa Group, the Lagardère Group, the Sogepa Group, the Sepi Group, the French State, the German State, the Spanish State or the EADS Group".

Pursuant to the Participation Agreement, the Board of Directors comprises eleven members as follows:

- One Non-Executive Chairman, appointed on joint proposal by the Daimler-Directors and the Sogead-Directors;
- The Chief Executive Officer of EADS, appointed on joint proposal by the Daimler-Directors and the Sogead-Directors;
- Two Directors nominated by Daimler;
- Two Directors nominated by Sogead;
- One Director nominated by SEPI, so long as the Indirect EADS Shares held by SEPI represent 5% or more of the total number of EADS Shares but in any case until the AGM to be held in 2012; and
- Four independent Directors, jointly proposed by the Chairman and the Chief Executive Officer of EADS and individually approved by the Board of Directors.

Pursuant to the Articles of Association, each member of the Board of Directors holds office for a term expiring at the AGM to be held in 2012. Members of the Board of Directors will be elected at each fifth AGM thereafter.

The shareholders' meeting may at all times suspend or dismiss any member of the Board of Directors. There is no limitation on the number of terms that a Director may serve.

The Board of Directors appoints a Chairman, upon the joint proposal of the Daimler-Directors and the Sogead-Directors. The Chairman ensures the smooth functioning of the Board of Directors in



particular with respect to its relations with the Chief Executive Officer with whom he teams up for top level strategic discussions with outside partners, which are conducted under his supervision.

The Chairman shall have either French or German nationality, provided that the Chief Executive Officer is of the other nationality.

The Chairman can submit his resignation as Chairman to the Board of Directors or can be dismissed as Chairman by the Board of Directors, upon the joint proposal of the Daimler-Directors and the Sogeade-Directors. The appointment further terminates if the Chairman is dismissed or resigns as Director. Immediately following the dismissal or resignation of the Chairman, and if the Daimler-Directors and the Sogeade-Directors do not immediately jointly designate a new Chairman, the Board of Directors appoints by simple majority a Director (with the same citizenship as the former Chairman) as interim Chairman for a period which expires at the earlier of either (i) twenty clear days after the Daimler-Directors and the Sogeade-Directors jointly designate a new Chairman (during which period, a Board of Directors meeting is called in order to appoint the new Chairman, upon the joint proposal of the Daimler-Directors and the Sogeade-Directors), or (ii) two months from that interim Chairman's appointment.

Upon request by any member of the Board of Directors made three years after the beginning of the Chairman's term and alleging that significant adverse deviation(s) from objectives and/or failure(s) to implement the strategy defined by the Board of Directors occurred, the Board of Directors shall meet, to decide whether deviations and/or failures actually occurred during this period and if so, to decide whether to renew its confidence to the Chairman (the "Vote of Confidence"). The Board of Directors resolves upon such Vote of Confidence by simple majority. The Chairman is removed if he does not obtain such Vote of Confidence, a new Chairman being then appointed in accordance with the above.

Upon the joint proposal by the Daimler-Directors and the Sogeade-Directors, the Board of Directors has appointed a Chief Executive Officer to be responsible for the day-to-day management of the Company. The way the Chief Executive Officer can resign or be dismissed and the way the Chief Executive Officer would, if any, be replaced are identical to those applying to the Chairman. The Vote of Confidence procedure stated above is also applicable to the Chief Executive Officer under the same conditions as for the Chairman.

## Powers of the Board of Directors Members

The Company is represented by the Board of Directors or by the Chief Executive Officer. The Chief Executive Officer may not enter into transactions that form part of the key responsibilities of the Board of Directors unless these transactions have been approved by the Board of Directors.

The key responsibilities of the Board of Directors include amongst others:

- Approving any change in the nature and scope of the business of the Group;
- Approving any proposal to be submitted to the general meeting of shareholders in order to amend the Articles of Association (Qualified Majority, as defined below);
- Approving the overall strategy and the strategic plan of the Group;
- Approving substantial changes to the business plan and the yearly budget of the Group;
- Setting the major performance targets of the Group;
- Designating or removing the Chairman and the Chief Executive Officer and deciding upon the designation or removal of the Chief Executive Officer of Airbus; it being understood that (i) the Chairman and the Chief Executive Officer of Airbus shall be of the same citizenship, either French or German, and the Chief Executive Officer and the Airbus COO of the other citizenship, and (ii) the Chief Executive Officer and the Airbus Chief Executive Officer may not be the same person (Qualified Majority);
- Appointing the members of the Executive Committee (see below), as a whole team, not on an individual basis;
- Establishing and approving amendments to the Rules and to the rules for the Executive Committee (Qualified Majority);

- Deciding upon the appointments of the Airbus Shareholder Committee, the EADS Corporate Secretary and the chairmen of the Supervisory Board (or similar organ) of other important Group companies and business units;
- Approving material changes to the organisational structure of the Group;
- Approving investments, projects or product decisions or divestments of the Group with a value exceeding €350,000,000 (it being understood that this item shall require the Qualified Majority only for investments, projects or product decisions or divestments of the EADS Group with a value exceeding €500,000,000);
- Approving strategic alliances and co-operation agreements of the Group (Qualified Majority);
- Approving matters of shareholder policy, major actions or major announcements to the capital markets;
- Approving any material decision regarding the ballistic missiles business of the Group (Qualified Majority);
- Approving other measures and business of fundamental significance for the Group or which involve an abnormal level of risk;
- Approving any proposal by the Chairman and the Chief Executive Officer as to the appointment of the independent Directors, for submission to the AGM; and
- Approving of principles and guidelines governing the conduct of the Group in matters involving non-contractual liabilities (like environmental matters, quality assurance, financial announcement, integrity) as well as the corporate identity of the Group.

## Voting and rules

Each Director has one vote, provided that, if there are more Sogeade-nominated Directors than Daimler-nominated Directors present or represented at the meeting, the Daimler-nominated Director who is present at the meeting can exercise the same number of votes as the Sogeade-nominated Directors who are present or represented at the meeting, and vice versa. All decisions of the Board of Directors are taken by a simple majority of votes (six Directors, present or represented, voting in favour of the decision), except for the votes relating to certain matters which can only be validly resolved upon a majority of votes including the unanimous vote of the two Sogeade-nominated Directors and the two Daimler-nominated Directors (the “Qualified Majority”). The quorum for the transaction of business at meetings of the Board of Directors requires the presence of at least one of the Sogeade-nominated Directors and one of the Daimler-nominated Directors. A Director can authorise another Director to represent him or her at a Board of Directors meeting and to vote on his or her behalf. Such authorisation must be in writing.

In the event of a deadlock in the Board of Directors, other than a deadlock giving Daimler the right to exercise the put option granted to it by Sogeade, the matter shall be referred to Arnaud Lagardère (or such person as shall be nominated by Lagardère) as representative of Sogeade and to the Chief Executive Officer of Daimler. In the event that the matter in question, including a deadlock giving Daimler the right to exercise the put option (but in this case with the agreement of Sogepa and Daimler) is a matter within the competence of the general meeting of EADS, a resolution on the issue shall be put to the general meeting, with the voting rights of Sogeade, Daimler and SEPI being negated.

Pursuant to the Rules, the Board of Directors may form committees from its members. In addition to the Audit Committee, the Remuneration and Nomination Committee and the Strategic Committee, the Board of Directors may form other committees to which it may transfer certain minor or ancillary decision-making functions although such assignment does not negate the joint responsibility of all Directors. The quorum for the transaction of business at any meeting of a committee requires the presence of at least one of the Sogeade-nominated Directors and one of the Daimler-nominated Directors. All decisions of a committee require the simple majority of the members.

In addition to the Rules, the work of the Board of Directors is governed by internal directors’ guidelines (the “Directors’ Guidelines”) adopted in light of corporate governance best practices. The Directors Guidelines are composed of a Directors’ charter (the “Directors’ Charter”) detailing the rights and duties of the members of the Board of Directors, an Audit Committee charter (the “Audit Committee Charter”), a Remuneration and Nomination Committee charter (the “Remuneration and Nomination Charter”) and

a Strategic Committee charter (the “Strategic Committee Charter”), with each such charter setting forth the respective committees’ roles.

## Composition of the Board of Directors

Name	Age	Term started (as member of the Board of Directors)	Term expires	Principal function	Status
Bodo Uebber	51	2007	2012	Chairman of EADS	Non-Executive
Louis Gallois	67	2000, re-elected in 2005 and 2007	2012	Chief Executive Officer of EADS	Executive
Rolf Bartke	63	2007	2012	Chairman of Keiper-Recaro-Group	Nominated by Daimler
Dominique D'Hinnin	51	2007	2012	Co-Managing Partner of Lagardère SCA	Nominated by Sogeade
Juan Manuel Eguiagaray Ucelay	65	2005, re-elected in 2007	2012	Economic Advisor	Nominated by SEPI
Arnaud Lagardère	49	2003, re-elected in 2005 and 2007	2012	Managing Partner of Lagardère SCA	Nominated by Sogeade
Hermann-Josef Lamberti	55	2007	2012	Member of the Management Board of Deutsche Bank	Independent
Lakshmi N. Mittal	60	2007	2012	Chairman and Chief Executive Officer of ArcelorMittal	Independent
Sir John Parker	68	2007	2012	Chairman of National Grid PLC and Anglo American PLC	Independent
Michel Pébereau	69	2007	2012	Chairman of the Board of Directors of BNP Paribas	Independent
Wilfried Porth	52	2009	2012	Member of the Board of Management of Daimler	Nominated by Daimler

Note: Status as of 1 March 2011. The professional address of all members of the Board of Directors for any matter relating to EADS is Mendelweg 30, 2333 CS Leiden, The Netherlands.

More details of the curriculum vitae and other mandates of the individual Board of Directors members can be found at the Company's website [www.eads.com](http://www.eads.com).

Within EADS, each Board of Directors member must have the required mix of experience, qualifications, skills and industrial knowledge necessary to assist the Company in formulating and achieving its overall strategy, together with the specific expertise required to fulfil the duties assigned to him or her as member of one of the Board of Directors’ committees. The Board of Directors also that having a diverse composition among its members with respect to gender, experience national origin, etc. is valuable for the quality and efficiency of its work.

The Board of Directors will propose candidates who can, in combination with the other Board of Directors members, manage EADS in a way that strengthens its position as a leader in the aerospace and defence industry. In this regard, the Board of Directors will take diversity - in particular with respect to gender - into account when assessing and proposing candidates for the any renewal of the entire Board of Directors.

### 4.1.2. Operation of the Board of Directors in 2010

#### Board of Directors meetings

The Board of Directors met 12 times during 2010 and was regularly informed of developments through business reports from the Chief Executive Officer, including rolling forecasts as well as strategic and operational plans. The average attendance rate at such meetings was 80%.

Throughout 2010, the Board of Directors monitored the progress of significant aircraft programmes, such as the A350 XWB, A380, NH90 and the Tiger helicopter. It was kept informed about the A380 Qantas engine incident and reviewed the status of the programme management improvement initiative

throughout the Group. The Board of Directors approved the launch of the A320 with a new engine option (neo), as well as the US Tanker bid. It was also involved in the A400M contract negotiations.

Along with the objectives set forth in the Vision 2020, the Board also focused on cash management, the savings from improvement and efficiency programmes, compliance in key business processes and last but not least, employee engagement.

The Board of Directors also addressed: EADS' strategy (including the competitive environment), the Group's financial results and forecasts, a thorough review of the Enterprise Risk Management results and system, Investor Relations and financial communication policy, as well as legal risks. The Board of Directors approved a change in the company's Executives remuneration structure and system. It also focused on succession planning. Finally, it decided to replace the 2010 employee share ownership plan by a free share plan for every eligible EADS employee, in celebration of EADS' 10<sup>th</sup> anniversary.

## Board Self-assessment

The Board of Directors carries out a yearly self-assessment of its performance, with an assessment also conducted by independent consultants every three years (as was the case in early 2010). A thorough discussion of the findings takes place at a subsequent meeting of the Board.

The Corporate Secretary conducted the most recent self-assessment in early 2011, which explored the role of the Board of Directors, its operations, how well it fulfils its mission, and the documentation and processes that influence its performance. The Directors concluded that as the Board gains in maturity its work as a team has grown increasingly efficient, allowing it to explore new domains and tackle relevant matters in the best interest of the Group.

The Directors consider the frequency and length of meetings adequate to cover all issues, although the addition of several unscheduled meetings for specific decisions makes EADS Board membership demanding. Supporting documentation has improved and is better focused to support decision-making, while remaining quite detailed. Information provided at meetings remains comprehensive due to the complexity of the business; the proportion of debate versus information delivery during meetings has improved.

With regard to teamwork, Directors unanimously find that discussions are uninhibited and that differing views are both encouraged and constructive. Moreover, the working relationship between the Board of Directors and the members of the Executive Committee is considered productive.

The Directors feel that the Board agenda is flexibly managed and allows them to fulfil their duty; attention to compliance permeates the work of the Board of Directors. They find that the Board of Directors is given more time to address longer term questions than in the past. The Board of Directors devoted a full day meeting to strategy for the second time in 2010, on an industrial site. This practice is considered beneficial and will be continued. Other meetings of the Board in 2010 related to, among others: discussing key programmes, particularly the A400M contract re-negotiation and A380 stabilisation; overhauling the executive remuneration system; adapting the business model of certain segments; launching new products and making business portfolio decisions.

Overall, the Board of Directors considers that it assembles a very international and varied set of skills, with competencies centred on business and finance; it believes that its renewal in 2012 will be an opportunity to fine-tune its composition, which may improve gender diversity.

With regard to Committees, their work is very thorough and professional, and the interaction of the Audit Committee and the Remuneration and Nomination Committee with the rest of the Board of Directors is satisfactory. Nevertheless, Committee meetings--which are increasingly held on different dates from Board meetings--should focus even further on special and technical issues before presentation to the full Board, to avoid repetition of work.

Finally, the Chairmanships of the Board and the Committees are recognised as very competent and dedicated. Since the last assessment, in 2010, the time and quality of strategic reviews (including the competitive landscape), the discussion of financial strategy, and the ability to anticipate and respond to significant questions are widely recognised improvements. There should be further focus on issues

such as succession planning and talent development, organisation and the role of support functions and the methodology of the globalisation effort, and effectiveness of governance.

### 4.1.3. Board Committees

#### Summary of memberships in 2010

In 2010, membership on Board Committees was as follows:

Directors	Audit Committee	Remuneration & Nomination Committee	Strategic Committee
Bobo Uebber (Chairman)			Chairman
Louis Gallois (CEO)			X
Rolf Bartke	X		
Dominique D'Hinnin	X	X	
Juan Manuel Eguiagaray Ucelay			
Arnaud Lagardère			X
Hermann-Josef Lamberti	Chairman	X	
Lakshmi N. Mittal			
Michel Pébereau			X
Sir John Parker	X	Chairman	
Wilfried Porth		X	X

#### The Audit Committee

Pursuant to the Rules, the Audit Committee makes recommendations to the Board of Directors on the appointment of auditors and the determination of their remuneration, as well as the approval of the annual financial statements and the interim accounts, it discusses with the auditors their audit programme and the results of their audit of the accounts and it monitors the adequacy of the Group's internal controls, accounting policies and financial reporting. The Audit Committee has responsibility for ensuring that the internal and external audit activities are correctly directed and that audit matters are given due importance at meetings of the Board of Directors. The rules and responsibilities of the Audit Committee have been set out in the Audit Committee Charter.

The Audit Committee reviews the quarterly, half and full year accounts on the basis of the documents distributed in advance and its discussions with the auditors. It also surveys the Group's ERM (Enterprise Risk Management) system and the Compliance Organisation.

The Chairman of the Board of Directors and the Chief Executive Officer are invited as guests to each meeting of the Committee. The Head of Accounting and the Chief Financial Officer are requested to attend meetings of the Audit Committee to answer questions.

The Audit Committee must meet four times a year, or more frequently, if necessary.

It met eight times during 2010, with an 88% average attendance rate, to review financial results, performance and disclosure.

It also reviewed the compliance organisation's processes and reinforcement, and its achievements. Finally, it focused on the ERM system effectiveness and the internal Audit activities.

## The Remuneration and Nomination Committee

Pursuant to the Rules, the Remuneration and Nomination Committee makes recommendations to the Board of Directors regarding the appointment of the EADS Corporate Secretary, the members of the Airbus Shareholder Committee, and the chairmen of the Supervisory Board (or similar organ) of other important Group member companies and business units. The Remuneration and Nomination Committee also makes recommendations to the Board of Directors regarding remuneration strategies and long-term remuneration plans and decides on the service contracts and other contractual matters in relation to the Board of Directors and Executive Committee members. Once approved by the Chairman, it also reviews the proposals by the Chief Executive Officer for the appointment of members of the Executive Committee. The rules and responsibilities of the Remuneration and Nomination Committee have been set out in the Remuneration and Nomination Charter.

The guiding principle governing management appointments in the Group is that the best candidate should be appointed to the position (“best person for the job”), while at the same time seeking to achieve a diverse composition with respect to gender, experience, national origin, etc.

The implementation of these principles should not create restrictions on the diversity of nationalities within the EADS executive management team.

The Chairman of the Board of Directors and the Chief Executive Officer are invited as guests to each meeting of the Committee.

The Remuneration and Nomination Committee must meet twice a year, or more frequently, if necessary. It met four times during 2010, with an 88% average attendance rate.

In addition to making recommendations to the Board of Directors for major appointments within the Group, the Remuneration and Nomination Committee reviewed proposed changes to the Executives remuneration structure and system for 2011 onwards, the salary levels of the Executive Committee members for 2010, the long-term incentive plan, the variable pay for 2009, and more generally the succession planning. Based on the outcome of the Free Share plan, it also discussed a possible adaptation for the 2011 ESOP plan.

## The Strategic Committee

The Strategic Committee is not a decision making body but a resource available to the Board of Directors for the preparation of decisions on strategic matters. Pursuant to the Rules, the Strategic Committee makes recommendations to the Board of Directors regarding strategic developments, corporate strategies, major merger and acquisition projects, major investments, projects or product decisions or divestments, as well as major research and development projects. The rules and responsibilities of the Strategic Committee have been set out in the Strategic Committee Charter.

The Strategic Committee must meet twice a year, or more frequently if necessary. It met twice during 2010, with a 90% average attendance rate. In addition to monitoring major strategic and divisional initiatives, acquisition targets and divestment candidates, and the top priorities of the Group for the year, it made recommendations to the Board of Directors linked to the competitive landscape and home countries industrial policy, company perception in key markets, the new constraints on defence budgets, and conducted a review of technology development in EADS.

### 4.1.4. Insider Trading Rules

The Board of Directors has also adopted specific Insider Trading Rules (ITR), which restrict its members from trading in EADS shares in certain circumstances. Pursuant to the Insider Trading Rules, (i) all employees and directors are prohibited from conducting transactions in EADS shares or stock options if they have inside information, and (ii) certain persons are only allowed to trade in EADS shares or stock options within very limited periods and have specific information obligations to the ITR compliance officer of the Company and the competent financial market authorities with respect to certain transactions. The updated version of the Insider Trading Rules effective from 1 January 2007 is available on the Company’s website ([www.eads.com](http://www.eads.com)).

## Conflicts of interest

EADS has a conflict of interest policy which sets out that any conflict of interest or apparent conflicts of interest between EADS and members of the Board of Directors shall be avoided (please refer to the Directors' Charter available on the Company's website ([www.eads.com](http://www.eads.com))).



## 4.2. Dutch Corporate Governance Code

In accordance with Dutch law and with the provisions of the Dutch Corporate Governance Code as amended at the end of 2008 (the “Dutch Code”), which includes a number of non-mandatory recommendations, the Company either applies the provisions of the Dutch Code or, if applicable, explains and gives sound reasons for their non-application. While EADS, in its continuous efforts to adhere to the highest standards, applies most of the current recommendations of the Dutch Code, it must, in accordance with the “apply or explain” principle, provide the explanations below.

For the full text of the Dutch Code, please refer to [www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl).

For the financial year 2010, EADS states the following:

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

Nevertheless it should be noted that a self-assessment of the Board of Directors confirmed that the members of the Board of Directors designated by the controlling shareholders hold opinions and defend positions that are in all relevant aspects aligned with the economic interests of individual shareholders. Given the absence of material conflicting business interests between EADS and its controlling shareholders, and the independence of the controlling shareholders from one another, the members of the Board of Directors designated by the controlling shareholders are deemed to fairly represent the interest of all shareholders in acting critically and independently of one another and of any particular interests. Furthermore, the Board of Directors' composition, as reshaped in October 2007 to increase in particular number of independent Board of Directors members, with a wide range of different experiences represented in the Board of Directors and the running of meetings is conducive to the expression of autonomous and complementary views.

Accordingly:

- Four members of the Board of Directors out of eleven are independent (whereas provision III.2.1 of the Dutch Code recommends that there be not more than one non-independent Board of Directors member);
- Members of the Board of Directors retire simultaneously on a five-yearly basis (whereas provision III.3.6 of the Dutch Code recommends that there be a retirement schedule to avoid, as far as possible, a situation in which many Non-Executive members of the Board of Directors retire at the same time);
- The Board of Directors is headed by the Chairman of the Board of Directors. In case of dismissal or resignation of the Chairman, the Board of Directors shall immediately designate a new Chairman. There is therefore no need for a vice-Chairman to deal with the situation when vacancies occur (whereas provision III.4.1(f) of the Dutch Code recommends that there is a vice-Chairman);
- EADS' Audit Committee does not meet without the Chief Executive Officer being present (whereas provision III.5.9 of the Dutch Code recommend this);
- EADS' Audit Committee includes two members of the Board of Directors designated by the controlling shareholders (whereas provision III.5.1 of the Dutch code recommends that there be not more than one non-independent Audit Committee member);
- EADS' Remuneration and Nomination Committee includes two members of the Board of Directors designated by the controlling shareholders (whereas provision III.5.1 of the Dutch code recommends that there be not more than one non-independent Committee member);
- EADS' Remuneration and Nomination Committee is not the relevant body responsible for the selection procedure and nomination proposals for members of the Board of Directors (whereas provision III.5.14 (a) of the Dutch Code recommends that such Committee shall focus on drawing up selection criteria and the appointment procedures for members of the Board of Directors; and provision III.5.14 (d) recommends that such Committee shall focus on making proposals for appointments and reappointments).



## 2. As for remuneration of member of the Board of Directors

EADS applies different rules for the remuneration of Executive (the Chief Executive Officer) and Non-Executive members of the Board of Directors, as explained in - 4.5.1. EADS' Remuneration Policy and 4.5.2. Remuneration of the members of the Board.

In case of dismissal from the Company of the Chief Executive Officer, a termination indemnity equal to one and a half times the annual total target salary would be paid subject to the following conditions (whereas provision II.2.8 of the Dutch Corporate Governance Code recommends that the maximum remuneration in the event of dismissal be one year's salary , and that if the maximum of one year's salary would be manifestly unreasonable for an Executive Board member who is dismissed during his first term of office, such Board of Directors member be eligible for severance pay not exceeding twice the annual salary): the Board of Directors has concluded that the Chief Executive Officer can no longer fulfil his position as a result of change of EADS' strategy or policies or as a result of a change in control of EADS. The termination indemnity would be paid only provided that the performance conditions assessed by the Board of Directors have been fulfilled by the Chief Executive Officer.

However this termination indemnity is no longer applicable, since the Chief Executive Officer has reached the age of 65 and is able to retire immediately.

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

- Moreover, EADS has adopted Insider Trading Rules providing for specific internal rules, inter alia, governing members' of the Board of Directors holding and trading of shares in EADS and other companies. Therefore, in line with these rules and these regulations and common practices in the jurisdictions in which the Company is listed:
- EADS does not require members of the Board of Directors to hold their securities in the Company as a long-term investment (whereas provision III.7.2 of the Dutch Code recommends such a treatment);
- The term of the office of members of the Board of Directors is five years without limitation on renewal (whereas provisions II.1.1 and III.3.5 of the Dutch Code recommend that there be no more than three four-year terms for Non-Executive members of the Board of Directors and that there be four-year terms (without limitation on renewal) for Executive members of the Board of Directors);
- EADS does not follow various recommendations for dealings with analysts, including allowing shareholders to follow meetings with analysts in real time and publishing presentations to analysts on the website as set out in provision IV.3.1 of the Dutch Code.

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For information on the operation of the shareholders' meeting and its key powers and on shareholders' rights and how they can be exercised, please refer to section 3.1 (Shareholding and voting rights – right to attend meetings).

For information on the composition and operation of the Board of Directors and its respective committees, please refer to section 4.1.1 "Composition, power and rules, section, 4.1.2 "Operation of the Board of Directors in 2010", section 4.1.3 "Board Committees".

For information on (i) significant direct and indirect shareholdings, (ii) holders of shares with special control rights, (iii) rules governing appointment and dismissal of Directors, (iv) amendments to the Articles of Association, and (v) the delegation to the Board of Directors of the power to issue or buy back shares, please refer to section 3.1 "Shareholding and voting rights – Shareholding structure and development in 2010", section 3.2 "Relationships with principal shareholders", section 4.1.1 "Composition, powers and rules", section 3.1 "Shareholding and voting rights – Amendments to the Articles of Association" and section 3.1 "Shareholding and voting rights – Modifications of Share Capital or Rights attached to Shares".

## 4.3. Enterprise Risk Management System

Risk and opportunity management is of paramount importance to EADS, considering the complex and volatile business environment in which EADS operates. A comprehensive ensemble of risk and opportunity management activities across EADS make up the EADS Enterprise Risk Management (“**ERM**”) system.

The objective of the ERM system is to create and preserve value for EADS’ stakeholders. It is designed and operated to effectively identify potential events that may affect EADS, manage risk to be within the defined risk tolerance, identify and manage opportunities, and provide reasonable assurance regarding the achievement of targets. Top risks and opportunities are reported quarterly to the Board of Directors. To achieve this, EADS seeks to have one integrated, consistent, comprehensive, efficient and transparent ERM system, using the same understanding, practice and language. It seeks to embed the risk management philosophy into the EADS culture, in order to make risk and opportunity management a regular and everyday process for employees.

The Board of Directors and EADS top management regard ERM as a key management process to steer the company and enable management to effectively deal with risks and opportunities. It is designed to achieve the following:

- **Strategy** – the selection of high level strategic objectives, supporting the EADS vision and consistent with risk appetite;
- **Operations** – the effectiveness and efficiency of operations and resource allocation; the delivery of products on time and in accordance with cost and quality objectives; the capability to achieve performance and financial targets; the implementation of risk-enabled decisions and managerial processes;
- **Reporting** – reliability of reporting and especially of financial reporting;
- **Compliance** – compliance with applicable laws and regulations.

An integrated, comprehensive and lean organisation and process for risk management is necessary to ensure that EADS has a view on risks and opportunities, and that important processes, programmes and projects are covered.

### ERM Process

The objectives, principles and process for the ERM system as endorsed by the Board of Directors are set forth in the EADS ERM Policy and communicated throughout the Group. The EADS ERM Policy is supplemented by various manuals, guidelines, handbooks, etc. The ERM system is based on the Internal Control and Enterprise Risk Management Framework of the Committee of Sponsoring Organisations of the Treadway Commission (COSO II). External standards that contribute to the EADS ERM system include the IC and ERM frameworks of COSO, as well as industry-specific standards as defined by the International Standards Organisation (ISO).

The ERM system comprises an integrated hierarchical bottom-up and top-down process to enable better management and transparency of risks and opportunities. At the top, the Board of Directors and the Audit Committee discuss major risks and opportunities, related risk responses and opportunity capture as well as the status of the ERM system, including significant changes and planned improvements. This is based on a systematic bottom-up information including management judgement. The results are then fed back into the organisation. The design of the ERM system seeks to ensure compliance with applicable laws and regulations with respect to Internal Control (**IC**) and Risk Management (**RM**). It addresses both IC and RM in parallel.

The ERM process consists of the following four elements:

- **ERM operational process**      **8 ERM components (Risk and Opportunity Management - ROM)** to enhance operational risk and opportunity management throughout EADS by using a consistent standard:  
Operational ROM Procedures: (1) Objective Setting, (2) R/O Identification, (3) R/O Assessment, (4) R/O Response, (5) Control Activities, (6) Monitoring  
General ROM Procedures: (7) Information & Communication, (8) Internal Environment
- **ERM reporting process**      Procedures for the status reporting of the ERM system and the risk/opportunity situation
- **ERM compliance process**      Procedures to substantiate the Board of Directors and Audit Committee, EADS CEO and EADS CFO assessment of the effectiveness of the EADS ERM system
- **ERM support process**      Procedures to increase the quality and provide further substantiation of the quality of the EADS ERM system

The ERM process applies to all possible sources of risks and opportunities, with both internal and external sources, quantifiable and unquantifiable, potentially affecting EADS short-, middle- and long-term. It also applies to all of EADS' business, activities and departments. Management at each level discusses ERM when they run the business, as part of their decision making and related activities. Accordingly, the ERM process is part of the management process and interrelated with other processes. The details of application of the ERM process vary with the risk appetite of management and the size, structure and nature of the organisational unit, programme/project, department or process. Nonetheless, the fundamental principles of the EADS ERM Policy generally apply.

For a discussion of the main risks to which the Group is exposed, see "5.4 Risk Factors".

## ERM Governance and Responsibility

The governance structure and related responsibilities for the EADS ERM system is as follows:

- The Board of Directors and Audit Committee supervise the overall effectiveness of the ERM system;
- The EADS Chief Executive Officer is responsible for an effective EADS ERM system, the related internal environment (i.e. values, culture) and risk philosophy. He defines the level of risk that EADS wishes to accept on a corporate level;
- The EADS Chief Financial Officer is accountable for the ERM system design and the implementation of the ERM process throughout EADS;
- The EADS ERM department guides the ERM implementation and configuration throughout the Group and is headed by the EADS Chief Risk Management Officer;
- The divisions, business units and headquarters' departments assume responsibility for the operation and monitoring of the ERM system. They seek to ensure transparency and effectiveness of the ERM system and adherence to its objectives. They take responsibility for the implementation of appropriate response activities to reduce probability and impact of risk exposures, and conversely for the implementation of appropriate responses to increase probability and impact of opportunities. They are responsible for the communication of risks and opportunities which affect others within EADS.

## ERM Effectiveness

EADS has established recurring ERM self-assessment mechanisms, to be applied across EADS. This seeks to allow EADS to reasonably assure the effectiveness of its ERM system. The ERM effectiveness assurance comprises the following components and related objectives:

- ERM process: Needs to be present and functioning throughout EADS without any material weaknesses and needs to fulfil the EADS ERM Policy requirements;
- Risk Appetite: Needs to be in accordance with the EADS risk environment;
- ERM IC system: Needs to have an effective IC system for the ERM process in place.

For the coverage of all of its activities, EADS has defined 20 high level business processes. In order to achieve ERM effectiveness, the ERM process as an overlaying process is an integral part of all other business processes and needs to be operated. ERM effectiveness is assured if the achievement of the ERM process objectives is secured by adequate ERM controls which are operating effectively throughout the organisation and are within the respective risk appetite level.

Operating effectiveness is measured inter alia by judging on major failings in the ERM system which have been discovered in the business year or any significant changes made to the system.

When the ERM system is determined to be effective, the Board of Directors and the EADS CEO and EADS CFO have reasonable assurance and are made aware, in a timely manner, of the extent to which EADS is moving toward achievement of its strategic and operational objectives, and that EADS' reporting is reliable and applicable laws and regulations are being complied with.

The combination of the following controls is designed to achieve reasonable assurance about ERM effectiveness:

<b>Organisation</b>	<b>ERM control with explanations</b>
Board of Directors / Audit Committee	<b>Regular monitoring</b> The Board of Directors and the Audit Committee review, monitor and audit the ERM system.
Top Management	<b>ERM top management discussions</b> This control is the most important step of the ERM Sub-Process "Compliance". All the results of the "Scoping", "Self Assessment" and "Confirmation" procedures are presented by the Divisions or Business Units Top Management and discussed and challenged at EADS top level.
Management	<b>ERM confirmation letter procedure</b> Confirmation of ERM and especially IC effectiveness and deficiencies or weaknesses. The scope of entities and processes/departments that participate in the annual ERM compliance procedures is determined by aligning coverage of EADS business with management's risk appetite.
ERM Department	<b>ERM effectiveness measurement</b> Assess ERM effectiveness by performing operational risk management for the ERM process, benchmarks, etc.
Corporate Audit	<b>Audits on ERM</b> Provide independent assurance to the Audit Committee on the effectiveness of the EADS ERM System.
Compliance	<b>Alert System</b> Provide evidence for deficiencies of the EADS ERM system.

## Developments in 2010 and Outlook

During 2010, EADS' approach to ERM has been further developed and integrated into the business and is increasingly used as a management and decision making tool. The quality of the ERM system has improved. Major cornerstones are:

- Implementation of new governance and a more structured process, as set forth in the updated EADS ERM Policy;
- Establishment and progress on major Group-wide ERM improvement projects;
- Increased focus on risk culture/understanding of ERM through joint efforts of top management and ERM department, including ERM training sessions;
- ERM compliance process successfully finalised for 2010, i.e., ERM confirmation letters were received and all ERM top management discussions took place;
- Choice of one IT tool for ERM Group-wide and integrated roadmap.

Looking ahead, EADS seeks to:

- Reduce risk criticality and encourage seizing of opportunity by use of the ERM methodology;
- Further raise the quality of ERM in the organisation and further develop lean ERM effectiveness measurement;
- Further implement and harmonise the Group-wide ERM IT tool;
- Establish a skills model and career path for risk managers.

EADS continuously seeks to evaluate and improve the operating effectiveness of the ERM system. For example, in 2010, EADS conducted an internal audit of various business controls designed to ensure compliance with applicable laws and regulations. While progress continues to be made in this area – including through the roll-out of a revised Group Ethics Code (“Integrity & Transparency”) and implementation of a new ethics alert system (“OpenLine”) in 2010 – EADS will use the recommendations from this audit to further strengthen its business controls related to compliance in the future; decisions have already been made to modify reporting lines in the compliance organisation, and to implement a new process to be reflected in the book of EADS Corporate Management Principles and Responsibilities (“Blue Book”).

## Board declaration – Limitations

The Board of Directors believes to the best of its knowledge that the internal risk management and control system over financial reporting has worked properly in 2010 and provides reasonable assurance that the financial reporting does not contain any errors of material importance.

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

## 4.4. Compliance Programme

The EADS Group Chief Compliance Officer (“CCO”) is in charge of the design and implementation of the EADS Ethics and Compliance Programme, which supports the Group's commitment to adhering to the highest ethical and compliance standards in order to sustain the Group's global competitiveness.

The EADS Ethics and Compliance Programme seeks to ensure that Group business practices conform to applicable laws and regulations as well as to ethical business principles endorsed by the Group. It also seeks to promote a culture of integrity and transparency, together with a commitment to social responsibility and sustainable development. A key programme element consists of the Group Ethics Code, “Integrity & Transparency” (updated in 2010 and available on [www.eads.com](http://www.eads.com)), which seeks to guide the daily behaviour of all EADS employees.

A compliance organisation and resource network has been implemented throughout the Group, in a structure that balances proximity to day-to-day business activities with the necessary independence. Accordingly, compliance officers throughout the Group report both to management as well as a point of contact within the compliance organisation. This is reflected at the very top of the hierarchy, with the EADS Group CCO reporting both to the Chief Executive Officer and the Audit Committee, which oversees the functioning of the Group-wide compliance organisation as a whole.

Compliance officers appointed in each of EADS' four Divisions as well as various Business Units are in charge of supporting employees to conduct business ethically and in accordance with the EADS Ethics and Compliance Programme. Chief compliance officers at the Divisions and Business Units must ensure that they have sufficient local resources to carry out their roles effectively, and report both to the EADS Group CCO and to the head of the relevant Division or Business Unit.

At Group level, permanent compliance officers are appointed to departments where the main compliance risks exist, and are empowered to issue compliance directives applicable throughout the Group. For example, the Group International Compliance Officer is in charge of developing and implementing EADS' Business Ethics Policy and Rules to prevent corruption. The Group Export Compliance Officer seeks to ensure that the marketing activities of the Group comply with all relevant export control rules and with the internal “sensitive countries” policy, while the Group Procurement Compliance Officer supervises compliance in the supply chain. In 2010, a fourth departmental compliance officer was appointed in order to more effectively address data privacy compliance risks in the Group.

In order to achieve the objectives set by the Chief Executive Officer and discussed with the Audit Committee, the EADS Group CCO has established a compliance “roadmap” based on international standards. The roadmap provides an overview of compliance activities such as:

- The monitoring of ethics and compliance policies, including periodic assessment and reporting of the main compliance risks as part of the EADS ERM system;
- Communication and training activities across the Group;
- Functioning of the new alert system implemented in 2010, “OpenLine”, through which employees may raise ethical and compliance concerns in strict confidentiality and without fear of retaliation. Due to current regulatory requirements, alerts posted on OpenLine may only be treated if they deal with accounting, financial or corruption issues. The use of OpenLine is limited to employees of all companies controlled by the Group and located in France, Germany, Spain and the UK. Taking into account EADS' overall compliance strategy, EADS will monitor the OpenLine system and will assess the possibility of extending its use to all employees and broadening its scope to issues of a general and operational nature.

In 2010, programme progress reports were presented twice to the Board of Directors and Audit Committee.

In the future, EADS will continue to lead efforts to establish consistent global standards for compliance in the aerospace and defence industry, in particular business ethics. As such standards become more consistent globally with a more level playing field for all, EADS will seek to turn its commitment to ethics and integrity into a sustainable competitive advantage.

## 4.5. Remuneration Report

### 4.5.1. EADS' Remuneration Policy

#### 4.5.1.1. General Principles

##### Strategy

EADS' remuneration strategy is to provide a remuneration that:

- attracts, retains and motivates qualified executives;
- is aligned with shareholders' interest;
- is performance-related to a significant extent;
- is fair and transparent;
- is competitive against the comparable market;
- can be applied consistently throughout the Group.

##### Benchmark

The remuneration policy is benchmarked regularly against the practice of other global companies, using peer group data and general industry data of consulting firms. The reference data is a weighted average of French, German and UK information, in the home countries of EADS. The total target remuneration for executives is targeted at the median level compared to the benchmark data.

### Assessment of the Appropriateness of Board and Executive Committee Remuneration

In March 2010, an assessment performed by an independent expert confirmed that EADS' Board and Executive Committee remuneration, terms and conditions were in line with the relevant European benchmarks and that EADS was compliant with the specific requirements and regulations set forth in the relevant corporate governance frameworks.

##### Regular Review

The Remuneration and Nomination Committee is charged with reviewing and making recommendations to the Board on remuneration policy and issues, with the Board making the final decision. Pursuant to its charter, the Remuneration and Nomination Committee must ensure that the rules for determining the variable portion of executives' remuneration are consistent with EADS' annual performance and the long-term strategy, and that this variable portion is linked to previously-determined, measurable targets which must be achieved both in the short term and the long term.

Each year, the Remuneration and Nomination Committee reviews the achievements of the performance conditions of the variable remuneration and how they may affect the remuneration of executives. Following analysis of different scenarios, the Board then determines the level at which performance conditions have been met. The Board based on the recommendation by the Remuneration and Nomination Committee can adjust the payout of the annual variable remuneration and the LTIP grants upwards or downwards if the predetermined performance criteria would produce an unfair result in extraordinary circumstances.



In making its final decision on the remuneration policy, the Board seeks to promote EADS' interests in the medium and long term while discouraging executives from acting in their own interests or taking risks that are not in keeping with the adopted strategy.

## Changes for 2011

Based on the results of the assessment performed by an independent expert and the Remuneration and Nomination Committee's review, the remuneration policy was redesigned to further improve the performance culture of the company from 2011 onwards. This will be achieved through (i) the implementation of a new process for setting collective financial targets and (ii) placing a stronger focus on behaviour and operational ability with respect to setting of individual targets.

### (i) Setting of collective financial targets

The process for setting collective financial targets will be reinforced to be a more proactive and interactive core process between the Board of Directors and the Executive Committee. It will aim at achieving both the long-term strategic goals set forth under Vision2020 and the short-term objectives based on the annual Operative Planning.

The process will take place in two consecutive steps: Around mid-year, the Board will set the 'ambitious target' for the collective financial KPI, taking into account market benchmarks of peers and other relevant industries. This represents the 150% achievement level of the variable remuneration and the LTIP. At year-end, the target setting for the year(s) to come will be finalized together with the Operative Planning.

The collective financial targets will themselves be subject to different metrics. Annual variable remuneration will be determined based on achievement of collective targets for EBIT and Free Cash Flow (FCF) on Group and Divisional level. LTIP awards will be based on achievement of the 3-years absolute average Earnings per Share (EPS = Net Income divided by number of ordinary shares) of the Group.

EPS as KPI for LTIP is well recognized throughout the market and used by numerous peer companies. The three years average EPS is intended to focus more on the long-term performance particularly from an investor's perspective, thereby strengthening the relationship between remuneration and sustainable EADS wide operational performance.

### (ii) Setting of Individual targets

The individual targets used for determination of the annual variable remuneration will be adjusted to foster inter-organizational collaboration and to intensify the focus of each executive on compliance with expected management behavior as defined by the EADS Leadership Competencies, on company values and on lessons learned from the "EADS Engagement Survey".

The weight of the behavioral targets will increase to up to 40% of the individual portion of the annual variable remuneration. Additionally, the weight of the classical operational targets shall be based on classical SMART (specific – measurable – achievable – realistic – clear timeline) objectives set at an individual, team or functional (up to Divisional) level. These operational targets will amount to a minimum of 60% of the overall individual targets.

### (iii) Performance Spread

The performance spread (achievement level) of the annual variable remuneration has been changed from 0 - 175% to 0 - 200%. This is designed to enable the company to better recognize outstanding achievements of the businesses and of the individuals than in the past.



## 4.5.1.2. Detailed Remuneration Policy

### Non-Executive members of the Board

Each Non-Executive member of the Board receives an annual fixed fee of €80,000, as well as a fee for participation in Board meetings of €5,000 per meeting attended. The Chairman of the Board receives an annual fixed fee of €180,000 for carrying out this role, as well as a fee for participation in Board meetings of €10,000 per meeting attended.

The Chairmen of each of the Board Committees receive an additional annual fixed fee of €30,000. The members of each of the Board Committees receive an additional annual fixed fee of €20,000 for each Committee membership. Committee chairmanship and committee membership annual fees are cumulative if the concerned Non-Executive members of the Board belong to two different Committees.

Non-Executive members of the Board are not entitled to variable remuneration or grants under EADS' LTIPs.

### Chief Executive Officer

The Chief Executive Officer (the sole Executive member of the Board) does not receive fees for participation in Board meetings or any dedicated compensation as member of the Board. Rather, the remuneration policy for the Chief Executive Officer for 2010 (as well as the other members of the Executive Committee) is designed to balance short term operational performance with the mid- and long term objectives of the company and consists of the following main elements:

Remuneration Element	Main drivers	Performance measures	% of total target remuneration/ % of vesting
Base salary	Reward market value of job/position	Individual performance	EADS CEO and Airbus CEO**: 45% of total target remuneration  Other members of the Executive Committee: 50% of total target remuneration
Annual variable remuneration	Reward annual performance based on achievement of company performance measures and individual/team objectives, including financial and non-financial targets and behaviours	Collective part (50% of target variable remuneration): EBIT (50%), Cash (25%) and Capital Employed (25%) achievement****	EADS CEO and Airbus CEO**: 55% of total target remuneration (range from 0% to 175%****)
		Individual part (50% of target variable remuneration): achievement of annual individual objectives	Other members of the Executive Committee: 50% of total target remuneration (range from 0% to 175%****)
Long term incentive plan	Reward long term company performance on financial targets	The number of performance units which will vest is based on 3 year absolute average earnings per share at EADS level	Vested performance units will range from 50% to 150% of initial grant*
<p>*In case of absolute negative results during the performance period, the Board of Directors can decide to review the vesting of the performance units including the 50% portion which is not subject to performance conditions (additional vesting condition).  ** Starting in 2011, the Airbus CEO's base salary and annual variable remuneration will each constitute 50% of his total target remuneration as for all other EADS Executive Committee members, except for the EADS CEO.  *** Starting in 2011, the performance measures for the collective part of the annual variable remuneration will be EBIT (50%) and Cash (50%) only. Capital Employed will no longer be used.  **** Starting in 2011, the spread of the achievement level may vary between 0 and 200%.</p>			

In addition, the Chief Executive Officer (as well as the other members of the Executive Committee) is entitled to pension and other benefits as described below.

### **Annual Variable Remuneration**

Each year, variable remuneration in cash can be earned based on the achievement of specific and challenging targets, and is calculated on the basis of two equal components:

- Collective Financial Targets (representing 50% of the annual variable remuneration) to reward company performance at Group level or Division level (if applicable). EBIT, Cash and Capital Employed are the financial indicators chosen to measure company performance in 2010 (EBIT weighted at 50%, Cash weighted at 25% and Capital Employed weighted at 25%). Starting in 2011, only EBIT and Cash (weighted 50% each) will be used for collective performance measurement);
- Individual Targets (representing 50% of the annual variable remuneration) to reward individual performance measured against the achievement of individual/team objectives, which also comprise non-financial indicators that are relevant to the Company's long-term value creation and behavioral objectives.

Based on the level of performance, the collective as well as the individual achievement can vary from 0% to 175% (0% to 200% starting in 2011) of the target variable remuneration. On target achievement at 100% for both individual and collective financial targets would indicate meeting personal and company performance targets.

### **Long-Term Incentive Plans (LTIP)**

The EADS LTIP consists of performance units and restricted units, and is a general tool for talent retention and promotion of long-term value creation.

Performance units are rights to receive a payment in cash based on the value of the EADS share on the respective vesting dates. They are granted to Group executives based on their hierarchical level. Vesting of these units is conditional upon mid-term business performance. The average vesting period is 4 years and 3 months.

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

Should the performance criteria be met and/or provided that the executive is still employed by the Company or any of its Group companies, the vesting of the Performance and Restricted units entitles the executives / selected individuals to four payments in cash between 3.5 and 5 years (average 4 years and 3 months); each payment representing 25% of the vested units.

A minimum of 50% of performance units will vest; 100% in case of on-target performance achievement; up to a maximum of 150% in case of overachievement of performance criteria. In case of absolute negative results (cumulative EBIT of EADS Group) during the performance period, the Board can decide to review the vesting of the Performance units including the 50% portion which is not subject to performance conditions (additional vesting condition).

In addition, and in order to strengthen the alignment of EADS top management with long-term growth objectives, the Board has approved mandatory share ownership rules. Executive Committee members must purchase and hold EADS shares equal to a minimum of 20% of the number of vested units. They will have to hold this number of EADS shares until the end of their mandate as an Executive Committee member.

In November 2010, the Board approved the granting of 2,891,540 Performance units on target and 977,780 Restricted units, to 1,711 EADS executives and selected non-executives.

The proposed 2011 LTIP would be a Performance and Restricted Unit Plan, with the same general principles as described above. The plan would offer the granting of about 4,000,000 (or more)

Performance and Restricted units on target. This number of allocations will be strongly dependent on the number of beneficiaries and on the evolution of the share price used as calculation basis at grant date (face value methodology). The value of each unit would be based on an average price of the EADS share at the respective dates of vesting. The grant value of the Performance units granted to the Chief Executive Officer will not represent more than 50% of his total target remuneration.

EADS has taken into account the market trend, which is moving from stock options or other equity plans to cash unit plans. The size of the annual EADS LTIP grant will be adjusted to reflect the face value policy decided by the Board of Directors for the different EADS executive categories at target level.

## 4.5.2 Remuneration of the members of the Board

The amounts of the various components constituting the remuneration granted to the Chief Executive Officer and to Non-Executive Directors during 2010, together with additional information such as the number of performance units and details of the pension benefits entitlements of the Chief Executive Officer, are set out in “Notes to the Company Financial Statements — Note 11: Remuneration”.

They are summarised below as well:

### Total remuneration and related compensation costs:

The total remuneration and related compensation costs of the members of the Board of Directors and former Directors related to 2010 and 2009 can be summarised as follows:

<b>Non-Executive members of the Board of Directors</b>	<b>2010</b>	<b>2009</b>
	<b>in €</b>	<b>in €</b>
Fixed Fees*	1,170,000	1,075,000
Fees	520,000	455,000
* The Fixed Fees related to 2009 were paid in 2010; the Fixed Fees related to 2010 will be paid in 2011.		

<b>Executive members of the Board of Directors</b>	<b>2010</b>	<b>2009</b>
	<b>in €</b>	<b>in €</b>
Base Salary	900,000	900,000
Annual Variable Pay (related to reporting period including part paid by EADS NV)	1,732,500	(1,141,250 waived at CEO's request)

The cash remuneration of the Non-Executive members of the Board of Directors related to 2010 was as follows:

2010	Fixed Fees** in €	Fees for participation in meetings in €	Total in €
<b>Directors</b>			
Bodo Uebber	210,000	120,000	330,000
Rolf Bartke	100,000	50,000	150,000
Dominique D'Hinnin	120,000	60,000	180,000
Juan Manuel Eguiagaray Ucelay	80,000	60,000	140,000
Arnaud Lagardère	100,000	20,000	120,000
Hermann-Josef Lamberti	130,000	45,000	175,000
Lakshmi N. Mittal*	80,000	40,000	120,000
Sir John Parker	130,000	45,000	175,000
Michel Pébereau	100,000	35,000	135,000
Wilfried Porth	120,000	45,000	165,000
<b>TOTAL</b>	<b>1,170,000</b>	<b>520,000</b>	<b>1,690,000</b>
* All Fees will be paid in 2011.			
** The Fixed Fees related to 2009 were paid in 2010; the Fixed Fees related to 2010 will be paid in 2011.			

The cash remuneration of the Executive member of the Board of Directors related to 2010 was as follows:

2010	Base Salary in €	Annual Variable Pay in € related to 2010
<b>Directors</b>		
Louis Gallois	900,000	1,732,500

For the first time since his appointment in 2006, the annual total target remuneration of the Executive member of the Board of Directors (CEO) will increase. This 10% increase from €2,000,000 to €2,200,000 (€990,000 Base Salary / €1,210,000 Annual Variable Remuneration on target), will apply in 2011, subject to approval at the next annual shareholders' meeting of the company.

Given the improvement in the Group's results and other milestones achieved, the Board has recommended that under the current circumstances, all directors accept their remuneration related to 2010. For the CEO, this includes the annual variable remuneration to which he is entitled in respect of 2010.

### Long term incentives

The table below gives an overview of the performance units granted to the Chief Executive Officer in 2010 pursuant to the LTIP:

	Unit plan: number of performance units*	
	Granted in 2010	Vesting dates
<b>Louis Gallois</b>	54,400	Vesting schedule is made up of 4 payments over 2 years: (i) 25% expected in May 2014; (ii) 25% expected in November 2014; (iii) 25% expected in May 2015; (iv) 25% expected in November 2015.
* Vesting of all Performance units granted to the Chief Executive Officer is subject to performance conditions.		

### Pension benefits

The twelve members of the Executive Committee have pension promises as part of their employment agreements. The general policy is to give them annual pensions of 50% of their annual base salary upon reaching 5 years of service in the Executive Committee of EADS at the age of 60 or 65.

These rights can gradually increase to 60% after a second term, usually after ten years of service in the EADS Executive Committee. However, in order to reach this 60% replacement ratio the respective member of the Executive Committee must also have 12 years of seniority within the Group.

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

For the Chief Executive Officer, the amount of the pension defined benefit obligation (i.e. the book cash value) amounted to €2.3 million as of 31 December 2010, while the amount of current service and interest cost related to his pension promise accounted for the fiscal year 2010 represented an expense of €0.6 million. This obligation has been accrued in the consolidated financial statements.

Non-Executive members of the Board do not receive pension benefits.

#### **Termination indemnity**

As part of his mandate contract, the Chief Executive Officer is entitled to a termination indemnity when the departure results from a decision by the Company in case of change in control or change in the Company's strategy. Payment of the termination indemnity is also subject to performance conditions as fixed and assessed by the Board of Directors. The termination indemnity, if applicable, would amount to a maximum of 18 months of annual total target remuneration.

However this termination indemnity rule is not applicable, since the Chief Executive Officer has reached the age of 65 and is able to retire immediately.

Non-Executive members of the Board do not have a termination indemnity.

#### **Non-competition clause**

A non-competition clause is included in the contract of the Chief Executive Officer. This clause is applicable for a one-year period, starting at the end of the mandate contract, and is renewable for one year at the Company's initiative.

The Chief Executive Officer will receive compensation based on 50% of the last target annual monthly salary in consideration of the non-competition clause. The monthly salary is defined as base salary and 1/12 of the annual variable remuneration last paid.

#### **Other benefits**

The Chief Executive Officer is entitled to a company car. The value of his company car as at 31 December 2010 is €24,120 (excluding VAT).

### **4.5.3. Remuneration of the members of the Executive Committee**

The members of the Executive Committee, including the Chief Executive Officer, are entitled to receive for the year 2010 total remuneration on a full year basis of €18,345,127. This remuneration is divided for the EADS Chief Executive Officer and Airbus Chief Executive Officer into a 45% fixed part and a 55% variable part on target and for the other members of the Executive Committee into a 50% fixed part and a 50% variable part on target.

The total remuneration paid by EADS and all its Group companies to Mr Louis Gallois, Chief Executive Officer, during the year 2010, was €900,000 (this sum includes the payments of his January to December 2010 base salary and no variable pay for 2009, as he waived such variable pay in 2010).

The members of the Executive Committee including the Chief Executive Officer receive the majority of their remuneration from their relevant national Group entity (under the terms of their employment or mandate contract) and the remaining part from EADS N.V. ("NV compensation", under the terms of the N.V. letter of agreement).

## 4.5.4. Employee Share Ownership Plan

EADS supports employee share ownership. Since its creation, EADS has regularly offered qualifying employees the opportunity to purchase EADS shares on favourable terms through employee share ownership plans (ESOPs).

In 2010, the normal ESOP plan was replaced by a worldwide 10 Years EADS – Special Anniversary Free Share Plan for about 118,000 employees in 29 countries. Each eligible employee (including the Chief Executive Officer) was granted 10 free shares in EADS. This exceptional free share grant was implemented in order to:

- Celebrate the initial public offering of EADS-ten years ago;
- Strengthen the employee's sense of belonging to EADS;
- Pursue the Group's employee shareholding development policy.

Non-Executive members of the Board were not eligible for free shares.

## Future ESOP

The Company intends to implement an ESOP in 2011, subject to approval by the Board of Directors. The 2011 ESOP is expected to be a share matching plan whereby the company would match a certain number of directly acquired shares with a grant of free shares. The total offering would be up to approximately 3.2 million shares of the Company, i.e. up to 0.39% of its issued share capital, open to all qualifying employees (including the Chief Executive Officer).

Non-Executive members of the Board are not eligible to participate in Future ESOP in 2011.

## 4.5.5. Miscellaneous

### Policy for loans and guarantees granted

EADS' general policy is not to grant any loan to the members of the Board of Directors. Unless the law provides otherwise, the members of the Board of Directors shall be reimbursed by the Company for various costs and expenses, like reasonable costs of defending claims. Under certain circumstances, such as an act or failure to act by a member of the Board of Directors that can be characterized as intentional, intentionally reckless, or seriously culpable, there will be no entitlement to this reimbursement. The company has also taken out liability insurance (D&O – Directors & Officers) for the persons concerned.

## 5. Financial and other Highlights

EADS' Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

### Accounting for the A400M programme

EADS resumed the percentage of completion method based on milestones for the A400M programme from January 2010 onwards, i.e. A400M related contract revenues and contract costs are recognised as revenues and expenses respectively by reference to the stage of completion of the A400M contract activity at the reporting date.

Overall the A400M flight test programme continues to progress better than expected. The ongoing technical progress of the A400M programme - reflected in the first flight of the fourth test aircraft on 20 December 2010, a successful test flight programme logging more than 1,000 flight test hours by the end of December 2010 as well as the first paratrooper jump through the ramp and paratrooper doors - resulted in the recognition of A400M related revenues of €1,043 million including also a partial utilisation of the A400M loss provision (€157 million).

On 5 November 2010 EADS/Airbus/AMSL concluded the negotiations with OCCAR and the seven A400M launch customer nations with an agreement further detailing the principle agreement ("A400M Understanding") reached in March 2010. The revised OCCAR agreement is subject to ratification by each customer nation before final adoption. While the overall economics of the "A400M Understanding" remain unchanged, the government payments are now more back-loaded than previously expected. Negotiations on the related export levy facility (ELF) scheme are to be finalized with some nations in line with the "A400M Understanding" (following approval in France and Germany) as well as negotiations with certain suppliers. The full receipt of the €1.5 billion ELF is conditional to the finalization of the ELF contract negotiations with all OCCAR nations targeted for completion in 2011. In the meantime, the programme is delivering results with four development aircraft flying. The A400M maturity gate milestone was passed in February 2011, which clears the way for the start of series production. Civil certification is planned for 2011.

The A400M loss provision as at 31 December 2010 amounting to €2,344 million (prior year-end: €2,464 million) has been updated based on the best estimate of EADS' management, reflecting the current status of the elements of the ongoing negotiations between AMSL and OCCAR / the Launch Nations as of 31 December 2010 as well as the expected total costs of the A400M programme updated in December 2010 with reference to 174 firm aircraft orders. As previously stated, a further reassessment of the revenue assumptions could have a significant impact on future results.

During 2010 the international market interest in the A400M airlifter has increased, especially reflected during the RIAT and Farnborough Air Show 2010 by various delegations.

## 5.1. Consolidated Financial Statements (IFRS)

### 5.1.1. Consolidated Income Statement (IFRS)

**Table 1: Consolidated Income Statement (IFRS)**

Table 1 - Consolidated Income Statements (IFRS)

in millions of €	2010	2009
Revenues	45,752	42,822
Cost of sales	(39,528)	(38,383)
<b>Gross margin</b>	<b>6,224</b>	<b>4,439</b>
Selling expenses	(1,024)	(924)
Administrative expenses	(1,288)	(1,272)
Research and development expenses	(2,939)	(2,825)
Other income	171	170
Other expenses	(102)	(102)
Share of profit from associates under the equity method	127	115
Other income from investments	18	19
<b>Profit (loss) before finance costs and income taxes</b>	<b>1,187</b>	<b>(380)</b>
Total finance costs	(371)	(592)
Income taxes	(244)	220
<b>Profit (loss) for the period</b>	<b>572</b>	<b>(752)</b>
<b>Attributable to:</b>		
Equity owners of the parent ( <b>Net income (loss)</b> )	553	(763)
Non-controlling interests	19	11

### 5.1.2. Revenues

In 2010, EADS' revenues increased 7 percent to €45.8 billion (FY 2009: €42.8 billion) thanks to growth from both volume and mix effects across core businesses, reduced by a negative foreign exchange impact of around €500 million. Physical deliveries remained at a high level with 510 aircraft at Airbus Commercial, 527 helicopters at Eurocopter and the 41st consecutive successful Ariane 5 launch. The percentage-of-completion methodology was resumed on the A400M programme based on the allocation of internal milestones. This has resulted in revenues of around €1 billion being booked on the programme with zero margin due to the associated provision utilisation.

### 5.1.3. EBIT pre goodwill impairment and exceptionals

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



**Table 2 – Reconciliation Profit (loss) before finance costs and income taxes to EBIT\* (IFRS)**

(in millions of €)	2010	2009
<b>Profit (loss) before finance costs and income taxes</b>	<b>1,187</b>	<b>(380)</b>
Exceptional depreciation and disposal	44	58
<b>EBIT pre goodwill impairment and exceptionals</b>	<b>1,231</b>	<b>(322)</b>

EADS' reported EBIT\* stood at €1,231 million (FY 2009: €-322 million). It benefited from good underlying performance in all core business activities in the Divisions, especially the Airbus legacy programmes. As expected, A380 continues to weigh significantly on the EBIT\*. Compared to 2009, EBIT\* was weighed down by the deterioration of hedge rates (FY2009: ~€ 1 = \$ 1.26 versus FY2010: ~€ 1 = \$ 1.35); however, 2009 was impacted by the A400M programme charge of €1.8 billion. In 2010, EADS has further refined its natural hedging strategy, impacting reported EBIT\* and other financial result but with no impact on EBIT\* before one-off and Net Income.

EBIT\* before one-off (adjusted EBIT\*) – an indicator capturing the underlying business margin by excluding non-recurring charges or profits caused by movements in provisions or foreign exchange impacts – stood at €1.3 billion (FY 2009: €2.2 billion) for EADS and at around €280 million for Airbus Commercial.

Net Income amounted to €553 million (FY 2009: €-763 million), or earnings per share of €0.68 (earnings per share FY 2009: €-0.94). The finance result amounts to €-371 million (FY 2009: €-592 million). The interest result of €-99 million (FY 2009: €-147 million) mainly reflects lower interest expenses. Meanwhile, the other financial result improved considerably by around €170 million year-on-year to €-272 million (FY 2009: €-445 million) driven mainly by lower unwinding of discounted provisions in 2010 than in 2009. The unwinding of discount mainly decreases due to lower outstanding provisions.

**Table 3 – EBIT\* and Revenues by Division**

by Division	EBIT*			Revenues		
	FY 2010	FY 2009	Change	FY 2010	FY 2009	Change
(Amounts in millions of Euro)						
Airbus Division (1)	305	-1,371	-	29,978	28,067	+7%
Airbus Commercial	291	386	-25%	27,673	26,370	+5%
Airbus Military	21	-1,754	-	2,684	2,235	+20%
Eurocopter	183	263	-30%	4,830	4,570	+6%
Astrium	283	261	+8%	5,003	4,799	+4%
Cassidian	457	449	+2%	5,933	5,363	+11%
Headquarters / Consolidation	-22	55	-	-1,174	-1,073	-
Other Businesses	25	21	+19%	1,182	1,096	+8%
Total	1,231	-322	-	45,752	42,822	+7%

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

1) Following integration of former Military Transport Aircraft Division into Airbus Division, Airbus is reporting in two segments: Airbus Commercial and Airbus Military. The Airbus Commercial perimeter includes EFW and aerostructures but excludes the A400M activity. Airbus Military includes the former Military Transport Aircraft Division as well as all A400M activity. Eliminations are treated at the Division level.

## 5.1.4. Consolidated Statements of Financial Position (IFRS)

Table 4 – Consolidated Statements of Financial Position (IFRS)

in millions of €	December 31		Change
	2010	2009	
Intangible Assets	11,299	11,060	239
Property, Plant and Equipment	13,504	12,586	918
Investments in associates under the equity method	2,451	2,514	-63
Other investments and other long-term financial assets	2,386	2,210	176
Other non-current assets	1,975	2,783	-808
Deferred tax assets	4,250	2,656	1,594
Non-current securities	5,332	3,983	1,349
<b>Non-current assets</b>	<b>41,197</b>	<b>37,792</b>	<b>3,405</b>
Inventories	20,862	21,577	-715
Trade receivables	6,632	5,587	1,045
Other current assets	3,632	4,238	-606
Current securities	5,834	4,072	1,762
Cash and cash equivalents	5,030	7,038	-2,008
<b>Current assets</b>	<b>41,990</b>	<b>42,512</b>	<b>-522</b>
<b>Total assets</b>	<b>83,187</b>	<b>80,304</b>	<b>2,883</b>
Equity attributable to equity owners of the parent	8,841	10,535	-1,694
Non-controlling interests	95	106	-11
<b>Total equity</b>	<b>8,936</b>	<b>10,641</b>	<b>-1,705</b>
Non-current provisions	8,213	8,137	76
Long-term financing liabilities	2,870	2,867	3
Deferred tax liabilities	1,195	751	444
Other non-current liabilities	18,203	15,532	2,671
<b>Non-current liabilities</b>	<b>30,481</b>	<b>27,287</b>	<b>3,194</b>
Current provisions	5,766	5,883	-117
Short-term financing liabilities	1,408	2,429	-1,021
Trade liabilities	8,546	8,217	329
Current tax liabilities	254	220	34
Other current liabilities	27,796	25,627	2,169
<b>Current liabilities</b>	<b>43,770</b>	<b>42,376</b>	<b>1,394</b>
<b>Total equity and liabilities</b>	<b>83,187</b>	<b>80,304</b>	<b>2,883</b>

### Non-current assets

Intangible assets of €11,299 million (prior year-end: €11,060 million) include €9,809 million (prior year-end: €9,741 million) of goodwill. This mainly relates to Airbus Commercial (€6,425 million), Cassidian (€2,533 million), Astrium (€644 million) and Eurocopter (€117 million). The related annual impairment tests, which were performed at the end of the year, did not lead to any impairment charges.

Eliminating foreign exchange-rate effects of €+172 million, property, plant and equipment increase by €+746 million to €13,504 million (prior year-end: €12,586 million), including leased assets of €759 million (prior year-end: €703 million). Property, plant and equipment also comprise “Investment property” amounting to €77 million (prior year-end: €78 million).

Investments in associates under the equity method of €2,451 million (prior year-end: €2,514 million) mainly reflect the decrease in the value of the equity investment in Dassault Aviation, amounting to €2,318 million (prior year-end: €2,380 million).

Other investments and other long-term financial assets of €2,386 million (prior year-end: €2,210 million) are related to Airbus for an amount of €1,765 million (prior year-end: €1,691 million), mainly concerning the non-current portion of aircraft financing activities including a foreign exchange rate effect of €+94 million.

Other non-current assets mainly comprise non-current derivative financial instruments and non-current prepaid expenses. The decrease by €-808 million to €1,975 million (prior year-end: €2,783 million) is mainly caused by the negative variation of the non-current portion of fair values of derivative financial instruments (€-705 million).

Deferred tax assets of €4,250 million (prior year-end: €2,656 million) are presented as non-current assets as required by IAS 1. The increase is mainly due to the negative variation of fair values of derivative financial instruments.

The fair values of derivative financial instruments are included in other non-current assets (€602 million, prior year-end: €1,307 million), in other current assets (€364 million, prior year-end: €937 million), in other non-current liabilities (€2,109 million, prior year-end: €732 million) and in other current liabilities (€821 million, prior year-end: €220 million) which corresponds to a total net fair value of €-1,964 million (prior year-end: €1,292 million). The volume of hedged US dollar-contracts increases from US dollar 60.8 billion as at 31 December 2009 to US dollar 70.2 billion as at 31 December 2010. The US dollar vanilla options of US dollar 2 billion as of 31 December 2009 were sold. Collars in the amount of US dollar 2.3 billion were purchased. The US dollar spot rate became more favorable (USD / € spot rate of 1.34 at 31 December 2010 vs. 1.44 at 31 December 2009). The average US dollar hedge rate for the hedge portfolio of the Group improves from 1.39 USD / € as at 31 December 2009 to 1.38 USD / € as at 31 December 2010.

### **Current assets**

Inventories of €20,862 million (prior year-end: €21,577 million) decrease by €-715 million. This is partly driven by lower unfinished goods and services at Astrium (€-112 million) and at Airbus Commercial programs (€-97 million). The successful ramp-up of deliveries results in a reduction of finished goods of €-186 million, especially thanks to less aircraft on stock. Advance payments provided to suppliers mainly decrease at Airbus (€-334 million) partly compensated by higher advance payments made at Eurocopter (€+78 million) and at EADS North America (€+49 million).

Trade receivables increase by €+1,045 million to €6,632 million (prior year-end: €5,587 million), mainly caused by Airbus (€+321 million), Eurocopter (€+263 million), Cassidian (€+223 million) and Astrium (€+211 million).

Other current assets include "Current portion of other long-term financial assets", "Current other financial assets", "Current other assets" and "Current tax assets". The decrease of €-606 million to €3,632 million (prior year-end: €4,238 million) comprises among others a decrease of €-573 million in positive fair values of derivative financial instruments.

Cash and cash equivalents decrease from €7,038 million to €5,030 million.

### **Total equity**

Equity attributable to equity owners of the parent (including purchased treasury shares) amounts to €8,841 million (prior year-end: €10,535 million). The decrease in equity is mainly due to other comprehensive income for the period of €-2,232 million mainly due to the change of fair values in cash flow hedges, partly compensated by the profit for the period.

Non-controlling interests slightly decrease to €95 million (prior year-end: €106 million).

### Non-current liabilities

Non-current provisions of €8,213 million (prior year-end: €8,137 million) comprise the non-current portion of pension provisions with a decrease of €-43 million to €5,037 million (prior year-end: €5,080 million).

Moreover, other provisions are included in non-current provisions, which increase by €+119 million to €3,176 million. The increase mainly reflects provisions for aircraft financing activities (€+52 million) due to foreign exchange rate effects and provisions for personnel expenses (€+46 million).

Long-term financing liabilities, which mainly comprise bonds, increase by €+3 million to €2,870 million (prior year-end: €2,867 million).

Other non-current liabilities, comprising “Non-current other financial liabilities”, “Non-current other liabilities” and “Non-current deferred income”, increase in total by €+2,671 million to €18,203 million (prior year-end: €15,532 million). The increase mainly comes from the non-current portion of liabilities for derivative financial instruments (€+1,377 million), amounting to €2,109 million (prior year-end: €732 million) and from the non-current portion of government receipts for development programmes (€+1,086 million).

### Current liabilities

Current provisions decrease by €-117 million to €5,766 million (prior year-end: €5,883 million) and comprise the current portions of pension (€184 million) and other provisions (€5,582 million). A decrease of provisions for restructuring measures (€-108 million) and of provisions for loss making contracts (€-90 million) is partly compensated by an increase in provisions for outstanding costs (€+114 million).

Short-term financing liabilities of €1,408 million (prior year-end: €2,429 million) decrease by €-1,021 million mainly due to the repayment of the first tranche of the EMTN bond with an amount of €1 billion in March 2010.

Other current liabilities include “Current other financial liabilities”, “Current other liabilities” and “Current deferred income”. They increase by €+2,169 million to €27,796 million (prior year-end: €25,627 million). Other current liabilities mainly comprise current customer advance payments of €23,285 million (prior year-end: €21,271 million), increasing by €+2,014 million.

## 5.1.5. Net Cash

EADS' Net Cash position amounted to €11.9 billion (year-end 2009: €9.8 billion) after a €553 million contribution to pension fund assets. It continues to be a solid foundation for the Group's operational needs as well as future growth.

Gross Cash comprises “Non-current securities”, “Current securities” and “Cash and cash equivalents”. For the Net Cash calculation “Long-term financing liabilities” and “Short-term financing liabilities” are deducted from the gross cash.

Free Cash Flow before customer financing of €2,644 million (FY 2009: €991 million) is significantly above expectations thanks to better operational and inventory management performance and stronger pre delivery payments at Airbus Commercial than expected. The improvement compared to last year is driven by the working capital. At Airbus Commercial, inventory reduction is driven by delivery patterns. The inflow of advances linked to Airbus commercial activity in 2010 was stronger than expected and was above 2009, particularly in the fourth quarter, reflecting the increase in future deliveries and commercial aircraft orders. This positive effect was more than offset by lower advance payments at Astrium and Cassidian compared to the 2009 level which was driven by exceptional order intake booked that year. Due to a combination of appetite from lessors and banking market recovery, customer financing generated a positive contribution of around €60 million compared to a 2009 outflow of €400 million. Investing activities consumed around €2.3 billion, mainly as investment ramps up on the

A350 XWB programme. Free Cash Flow after customer financing amounted to €2,707 million (FY 2009: €585 million).

## 5.1.6. Order Intake and Order Book

The Group's order intake of €83.1 billion was significantly higher than one year ago (FY 2009: €45.8 billion), driven by the higher level of commercial aircraft orders at Airbus. Net orders of 574 aircraft include 32 A380s and 78 A350 XWB. By the end of December 2010, EADS' order book stood at a record €448.5 billion (year-end 2009: €389.1 billion), reflecting the improved commercial aircraft momentum. The Airbus Commercial order book also benefited from a positive revaluation impact of around €25 billion due to the strengthening value of the U.S. dollar against the euro at the end of December 2010 compared to the end of December 2009. The defence order book stood at €58.3 billion (year-end 2009: €57.3 billion).

**Table 5 – Order Intake and Order Book by Division**

by Division (Amounts in millions of Euro)	Order Intake(2)			Order Book(2)		
	FY 2010	FY 2009	Change	31st Dec 2010	31st Dec 2009	Change
Airbus Division (1)	68,223	23,904	+185%	400,400	339,722	+18%
Airbus Commercial	68,210	23,461	+191%	378,907	320,321	+18%
Airbus Military	152	637	-76%	22,819	20,686	+10%
Eurocopter	4,316	5,810	-26%	14,550	15,064	-3%
Astrium	6,037	8,285	-27%	15,760	14,653	+8%
Cassidian	4,312	7,959	-46%	16,903	18,796	-10%
Headquarters / Consolidation	-1,409	-1,080	-	-1,639	-1,120	-
Other Businesses	1,668	969	+72%	2,519	1,952	+29%
Total	83,147	45,847	+81%	448,493	389,067	+15%

1) Following integration of former Military Transport Aircraft Division into Airbus Division, Airbus is reporting in two segments: Airbus Commercial and Airbus Military. The Airbus Commercial perimeter includes EFW and aerostructures but excludes the A400M activity. Airbus Military includes the former Military Transport Aircraft Division as well as all A400M activity. Eliminations are treated at the Division level.

2) Contributions from commercial aircraft activities to EADS Order Intake and Order Book are based on list prices.

## 5.1.7. EADS Division Details

**Airbus'** consolidated revenues of €29,978 million show an increase of 7 percent compared to the same period last year (FY 2009: €28,067 million). The Airbus consolidated EBIT\* amounted to €305 million (FY 2009: €-1,371 million).

Airbus Commercial revenues amounted to €27,673 million (FY 2009: € 26,370 million). Deliveries increased to 510 commercial aircraft, of which 508 aircraft accounted for revenue recognition (FY 2009: 498 aircraft). Compared to one year ago, Airbus Commercial revenues reflect a favourable volume and mix effect which includes a higher number of A380 deliveries. The negative impact on revenues from foreign exchange is around €500 million. Two A330-200 aircraft were delivered under operating lease and therefore do not count for revenue and margin recognition. The remaining two Single Aisle aircraft delivered under operating lease in the first half of 2010 have now been sold down into the market, bringing total deliveries for revenues and margin recognition to 132 aircraft for the last quarter. Airbus Commercial EBIT\* decreased to €291 million (FY 2009: €386 million). Compared to 2009, the Airbus Commercial EBIT\* before one-off (FY 2009: around €1 billion; FY 2010: around €280 million) benefits from favourable volume and mix effects, pricing improvement net of escalation and Power8 savings. It

is reduced by a hedge rate deterioration of around €940 million, cost escalation and costs associated with business growth.

Airbus Military revenues increased to €2,684 million (FY 2009: €2,235 million), driven by higher A400M revenue recognition but lower revenues in Medium & Light (M&L) and Tankers. On the A400M, consistent with the return to the percentage-of-completion methodology, the internal milestones passed during 2010 have triggered revenues of around €1 billion with zero margin due to the associated provision utilisation. Deliveries amounted to 20 M&L aircraft (FY 2009: 16 aircraft). Airbus Military EBIT\* amounted to €21 million (FY 2009: €-1,754 million, weighed down by the A400M provision). It reflects a favourable mix in M&L and Tankers.

In 2010, Airbus Commercial set another record for deliveries. The market rebound, driven by continuing appetite for growth in emerging markets, led to 644 new gross commercial orders (FY 2009: 310). 574 aircraft net orders were booked, including 32 additional A380 and 78 A350 XWB bringing the A350 XWB order total to 583 aircraft from 36 customers. The A320neo (new engine option), offering 15 per cent less fuel burn, was launched in the fourth quarter and has seen early market success. Airbus Military booked gross orders for 21 aircraft (CN235 and C-295) in 2010.

On the A350 XWB, EADS' top risk programme, Airbus has made good progress in 2010 with the beginning of manufacturing for sub components and sub assemblies at section level; however, the time schedule remains challenging. Entry-into-Service is scheduled for H2 2013.

As expected, the A380 programme is stabilising and Airbus is making significant progress on the learning curve, leading to an improvement of the gross margin per aircraft.

The A400M programme is delivering results with four development aircraft flying. The A400M maturity gate milestone passed in February 2011 clears the way for the start of series production. Civil certification is planned for 2011. The A330-based Multi-Role Tanker Transport (MRTT) aircraft achieved civil and military certification and the UK Future Strategic Tanker Aircraft conducted its first flight.

As of 31 December 2010, Airbus' consolidated order book was valued at €400.4 billion (year-end 2009: €339.7 billion). Airbus Commercial backlog, which benefited from a positive revaluation impact of around €25 billion due to the strengthening value of the U.S. dollar against the euro at the end of December 2010 compared to the end of December 2009, accounted for €378.9 billion (year-end 2009: €320.3 billion) which represents 3,552 units (year-end 2009: 3,488 aircraft). The Airbus Military order book includes 241 aircraft. It increased by 10 per cent to €22.8 billion (year-end 2009: €20.7 billion); the A400M order book has benefited from a positive adjustment to reflect the customer negotiation outcome.

In 2010, revenues for **Eurocopter** amounted to €4,830 million (FY 2009: € 4,570 million). Deliveries totalled 527 helicopters (FY 2009: 558 helicopters), including 28 NH90 and 15 Tiger, double the 2009 level. The Dutch and French navies received the first NH90 naval versions. Revenues also reflect a favourable mix from higher support and governmental revenues. The Division's EBIT\* decreased to €183 million (FY 2009: €263 million); it was impacted by higher product investment and negative one-time effects of around €120 million, driven mainly by the NH90 and a restructuring charge.

2010 saw the start of flight testing with the X3 high-speed hybrid demonstrator aircraft, a key focus of Eurocopter innovation strategy, along with the maiden flights of the second EC175 prototype and the Korean Utility Helicopter. Eurocopter strengthened its training and support/services capabilities during 2010 in such regions as China and India and developed a new global logistics platform in France.

The 2010 net order trend with 346 net orders registered was stable compared to 2009 (344 net orders) despite a lower level of gross orders because cancellations were lower at 49 compared to 105 in 2009. Recovery in the civil market is slow, in particular due to the high number of second-hand helicopters in the market. Eurocopter has proactively started to adapt to this challenge with its SHAPE programme launched in early 2010. Good progress has been made on the reduction of workforce and operating costs. Eurocopter's order book amounted to € 14.6 billion (year-end 2009: € 15.1 billion) with 1,122 helicopters (year-end 2009: 1,303 helicopters).

**Astrium** revenues in 2010 increased by four per cent to €5,003 million (FY 2009: €4,799 million), marking a year of strong programme execution at the Division. This resulted in revenue performance above expectations, more than compensating the one-time catch up effect for in-orbit incentive

schemes booked in 2009. 2010 milestones include the start of M51 ballistic missile deliveries for the French Navy. Ten Astrium-built satellites were launched and are performing successfully and Ariane 5 delivered its 41st consecutive launch success bringing the total number to six for 2010. EBIT\* improved by 8 percent to €283 million (FY 2009: €261 million), reflecting growth and productivity in defence and military services as well as operational improvement in institutional activities.

Astrium also launched a transformation programme, AGILE, to increase efficiency and prepare for a changing competitive environment.

Order intake reached €6.0 billion in 2010 supported by continued commercial momentum (FY 2009: €8.3 billion, including the Ariane 5 PB batch of 35 launchers). 2010 orders include the M51 evolution and maintenance contracts and two optical reconnaissance satellites for the French Defence Procurement Agency (DGA). Furthermore, the Skynet5 contract with the British Ministry of Defence was extended. The European Space Agency awarded contracts to begin the first development phase of Ariane 5 ME (Mid-life evolution) and to undertake initial development studies for a Next Generation Launcher (NGL). At the end of December 2010, the order book for Astrium increased to €15.8 billion (year-end 2009: €14.7 billion).

Revenues of **Cassidian** in 2010 increased by 11 percent to €5,933 million compared to the previous year (FY 2009: €5,363 million). This strong revenue increase reflects volume growth from core and export in Eurofighter and Missile programmes and progress in Lead Systems Integrator border security contracts. EBIT\* stood stable at €457 million (FY 2009: €449 million). It reflects margin growth in mature programmes and significant growth in self-funded R&D for next generation products. It was weighed down by net one-time effects of around €20 million. This includes the cancellation of the FiReControl contract by the UK government. R&D investment is focused mainly on Unmanned Aerial Systems (UAS) and secure communications.

EADS continues to investigate requirements and funding solutions for the Talarion UAS with customers, stressing the need for a timely commitment to the programme by governments. A successful first flight for EuroHawk and continued testing of the Barracuda demonstrator confirm technical capability in this business field.

Cassidian is beginning to feel the first pressure from the home countries defence budget situation with some delayed order intake and higher R&D; however, 2010 demonstrated robust performance. The German government is expected to communicate on its plans in the spring. In the meantime, a transformation plan is under preparation for the new business environment, which will see growth in the security business.

In 2010, Cassidian advanced with its globalisation strategy, joining forces with Odebrecht in Brazil in the field of defence and security technology as well as creating an engineering centre and a joint venture with Larsen & Toubro in India.

The order intake level of €4.3 billion (FY 2009: €8.0 billion) in a more challenging market was below the revenue level. At the end of December 2010, the Division's order book remained solid at €16.9 billion (year-end 2009: €18.8 billion).

#### **Headquarters and Other Businesses (not belonging to any Division)**

Revenues of Other Businesses increased by 8 percent to €1,182 million (FY 2009: €1,096 million). This increase was driven predominantly by the ramp-up in Light Utility Helicopter (LUH) deliveries at EADS North America. EBIT\* of Other Businesses grew to €25 million (FY 2009: €21 million) thanks to increases at ATR and Sogerma which was reduced by higher investment at EADS North America. The increase at ATR included a positive one-time effect from foreign exchange of around €15 million.

ATR delivered 52 aircraft in 2010 (FY 2009: 53 aircraft) and received 78 firm net orders (FY 2009: 26 net orders) as well as 33 options. Order intake was higher than expected with a very active market on the new -600 version. ATR market share amounted to around 65 percent in 2010, confirming its leadership on the segment. New orders include 20 ATR 72-600 from Brazilian carrier Azul Linhas Aéreas and ATR gained a new operator in Trinidad and Tobago Airlines, which placed an order for 9 ATR 72-600. In 2010, ATR delivered its 900th aircraft to Brazilian Airline TRIP Linhas Aéreas. At the end of December 2010, ATR's order book stood at 159 aircraft (year-end 2009: 133 aircraft) and



production rates are expected to increase in 2011 thanks to a notable improvement in its market and financing environment.

Addressing a potential key helicopter campaign in the U.S., EADS North America conducted the first flight of its Armed Aerial Scout 72X Technical Demonstration Aircraft in December. It also delivered the 150th UH-72A Lakota Light Utility Helicopter to the U.S. Army in February 2011 – with every delivery on time and on budget. On 31 December 2010, the order book of Other Businesses stood at €2.5 billion (year-end 2009: €2.0 billion).

## 5.2. EADS N.V. Company Financial Statements

**Table 6 – Balance sheet EADS NV**

(in millions of €)	December, 31	
	2010	2009
Goodwill	4,354	4,354
Financial fixed assets	7,960	9,578
Non-current securities	5,172	3,809
<b>Fixed assets</b>	<b>17,486</b>	<b>17,741</b>
Receivables and other assets	4,874	4,383
Securities	5,756	4,045
Cash and cash equivalents	3,199	5,377
<b>Non-fixed assets</b>	<b>13,829</b>	<b>13,805</b>
<b>Total assets</b>	<b>31,315</b>	<b>31,546</b>
<b>Stockholders' equity</b> <sup>1)</sup>	<b>8,841</b>	<b>10,535</b>
Financing liabilities	2,194	1,941
<b>Non-current liabilities</b>	<b>2,194</b>	<b>1,941</b>
Financing liabilities	29	0
Other current liabilities	20,251	19,070
<b>Current liabilities</b>	<b>20,280</b>	<b>19,070</b>
<b>Total liabilities and stockholders' equity</b>	<b>31,315</b>	<b>31,546</b>

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

**Table 7 – Income Statement EADS NV**

(in millions of €)	2010	2009
Income from investments	463	(953)
Other results	90	190
<b>Net result</b>	<b>553</b>	<b>(763)</b>

## 5.3. Information on Statutory Accountants

	<u>Date of First Appointment</u>	<u>Expiration of Current Term of Office*</u>
<u>KPMG Accountants N.V.</u>		
<u>Fascinatioboulevard 200 – 3065 WB Rotterdam — The Netherlands</u>	<u>10 May 2000</u>	<u>26 May 2011<sup>†</sup></u>
<u>Represented by L.A. Blok</u>		
<u>Ernst &amp; Young Accountants LLP</u>		
<u>Boompies 258, 3011 XZ Rotterdam — The Netherlands</u>	<u>24 July 2002</u>	<u>26 May 2011</u>
<u>Represented by C.T. Reckers</u>		
<u>(*) A resolution will be submitted to the General Meeting of Shareholders called for 26 May 2011, in order to appoint Ernst &amp; Young Accountants LLP and KPMG Accountants N.V. as the Company's auditors for the 2011 financial year.</u>		

KPMG Accountants N.V., Ernst & Young Accountants LLP and their respective representatives are registered with the Royal NIVRA (Nederlands Instituut van Register Accountants).

## 5.4. Risk factors

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

### 5.4.1. Financial Market Risks

#### Exposure to Foreign Currencies

A significant portion of EADS' revenues is denominated in US dollars, while a substantial portion of its costs is incurred in euro, and to a lesser extent, in pounds sterling. Consequently, to the extent that EADS does not use financial instruments to hedge its exposure resulting from this foreign currency mismatch, its profits will be affected by market changes in the exchange rate of the US dollar against these currencies, and to a lesser extent, by market changes in the exchange rate of pound sterling against the euro. EADS' foreign currency hedging strategy may not protect it from significant changes in the exchange rate of the US dollar to the euro and the pound sterling, in particular over the longer term, which could have a negative effect on its results of operation and financial condition. In addition, the portion of EADS' US dollar denominated revenues that is not hedged in accordance with EADS' hedging strategy will be exposed to changes in exchange rates, which may be significant.

#### Exposure to Sales Financing Risk

In support of sales, EADS may agree to participate in the financing of customers or guarantee part of the market value of certain aircraft during limited periods after their delivery to customers. As a result, EADS has a significant portfolio of leases and other financing arrangements with airlines and other customers. No assurances may be given that the measures taken by EADS to protect itself from defaults by its customers or significant decreases in the value of the financed aircraft in the resale market will be effective, which may have a negative effect on its future results of operation and financial condition.

#### Exposure to Counterparty Credit Risk

In addition to the credit risk relating to sales financing as discussed above, EADS is exposed to credit risk to the extent of (i) non performance by its counterparties for financial instruments, such as hedging instruments and cash investments, and (ii) price risks arising from the credit spreads embedded in cash investments. There can be no assurances that despite the implementation of a credit limit system and the diversification of counterparties, EADS will not lose the benefit of certain derivatives, or cash investments, in case of a systemic market disruptions.

#### Exposure on Equity Investment Portfolio

EADS holds several equity investments for industrial or strategic reasons, the business rationale for which may vary over the life of the investment. EADS is exposed to the risk of unexpected material adverse changes in the fair value of Dassault Aviation and that of other associated companies.

#### Pension Commitments

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

For further information relating to financial market risks and the ways in which EADS attempts to manage these risks, see “Notes to the Consolidated Financial Statements (IFRS) — Note 34A: Financial risk management”.

## 5.4.2. Business-Related Risks

### Commercial Aircraft Market Cyclicity

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

For example, the recovery in the market for civil helicopters following the recent economic downturn remains tenuous, in particular due to the high number of second hand helicopters in the market. While the order cancellation trend slowed in 2010, customers may refrain from placing new orders or seek to postpone or cancel otherwise binding contractual orders for the foreseeable future.

### Impact of Terrorism, Epidemics and Catastrophic Events

As past terrorist attacks (such as in New York and Madrid) and the spread of epidemics (such as H1N1 flu) have demonstrated, terrorism and epidemics may negatively affect public perception of air travel safety and comfort, which may in turn reduce demand for air travel and commercial aircraft. The outbreak of wars, riots or political unrest in a given region may also affect the willingness of the public to travel by air. Furthermore, major airplane crashes may have a negative effect on the public's or regulators' perceptions of the safety of a given class of aircraft, form of design, airline or air traffic. In response to such events, and the resulting negative impact on the airline industry or particular airlines, EADS may suffer from a decline in demand for all or certain types of its aircraft or other products, and EADS' customers may postpone delivery or cancel orders.

Moreover, EADS' operations may be disrupted by the occurrence of these and other events, including information technology or infrastructure attacks or failures, damaging weather or other acts of nature and other crises that may affect an organisation as complex as EADS. Any such disruptions could have a significant adverse effect on EADS' future results of operations and financial condition as well as its reputation.

### Dependence on Public Spending and on Certain Markets

In any single market, public spending (including defence and security spending) depends on a complex mix of geopolitical considerations and budgetary constraints, and may therefore be subject to significant fluctuations from year to year and country to country. In particular, government interventions to mitigate the impacts from the recent economic downturn have resulted in a significant deterioration of the fiscal position and increased public debt levels of the main industrialised countries, leading several of them to seek to reduce their future public spending. This is especially true with respect to defence and security budgets, where certain countries have proposed substantial reductions. Depending on how such budget reductions are finally implemented, the termination or reduction of funding for existing or new programmes may have a negative effect on EADS' future results of operations and financial condition.

Further, a significant portion of EADS backlog is concentrated in certain regions or countries, including the United States, China, India and the United Arab Emirates. Adverse economic and political conditions as well as downturns in broad economic trends in these countries or regions may have a negative effect on EADS' future results of operation and financial condition.

### Availability of Government and Other Sources of Financing

Since 1992, the EU and the US have operated under an agreement that sets the terms and conditions of financial support that governments may provide to civil aircraft manufacturers. In late 2004, however, the US sought to unilaterally withdraw from this agreement, which eventually led to the US and the EU

making formal claims against each other before the World Trade Organization (**WTO**). While both sides have expressed a preference for a negotiated settlement that provides for a level playing field when funding future aircraft developments, they have thus far failed to reach agreement on key issues. The terms and conditions of any new agreement, or the outcome of the formal WTO proceedings, may limit access by EADS to risk sharing funds for large projects, may establish an unfavourable balance of access to government funds by EADS as compared to its US competitors or may theoretically cause the European Commission and the involved governments to analyse possibilities for a change in the commercial terms of funds already advanced to EADS.

In prior years, EADS and its principal competitors have each received different types of government financing of product research and development. However, no assurances can be given that government financing will continue to be made available in the future, in part as a result of the proceedings mentioned above. Moreover, the availability of other outside sources of financing will depend on a variety of factors. EADS may therefore not be able to successfully obtain additional outside financing on favourable terms, or at all, which may limit EADS' future ability to make capital expenditures, fully carry out its research and development efforts and fund operations.

## Emergence of Public-Private Partnerships and Private Finance Initiatives

Defence customers, particularly in the UK, increasingly request proposals and grant contracts under schemes known as public-private partnerships (**PPPs**) or private finance initiatives (**PFI**s). There can be no assurances of the extent to which EADS will efficiently and effectively (i) compete for future PFI or PPP programmes, (ii) administer the services contemplated under the contracts, (iii) finance the acquisition of the equipment and the ongoing provision of services related thereto, or (iv) access the markets for the commercialisation of excess capacity. EADS may also encounter unexpected political, budgetary, regulatory or competitive risks over the long duration of PPP and PFI programmes.

## Competition and Market Access

The markets in which EADS operates are highly competitive. There can be no assurance that EADS will be able to compete successfully against its current or future competitors or that the competitive pressures it faces in all business areas will not result in reduced revenues or market share.

## Technologically Advanced Products and Services

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

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

In addition to any costs resulting from product warranties, contract performance or required remedial action, such problems may result in increased costs or loss of revenues – in particular as a result of contract cancellations – which could have a negative effect on EADS' future results of operation and financial condition. Any problems in this respect may also have a significant adverse effect on the competitive reputation of EADS' products.

## Major Research and Development Programmes

The business environment in many of EADS' principal operating business segments is characterised by extensive research and development costs requiring significant up-front investments with a high level of complexity. The business plans underlying such investments often contemplate a long payback period before these investments are recouped, and assume a certain level of return over the course of this

period in order to justify the initial investment. There can be no assurances that the commercial, technical and market assumptions underlying such business plans will be met, and consequently, the payback period or returns contemplated therein achieved.

## Power8 Plus, “Future EADS” and Other Restructuring, Transformation and Cost Saving Programmes

In 2008, EADS launched a Group-wide cost savings programme referred to as "Power8 Plus", with the goal of achieving €650 million in gross annual savings for Airbus and an additional €350 million for the rest of the Group by the end of 2012. EADS is also currently working on a further integration and cost savings programme referred to as "Future EADS". In addition, all divisions are running their transformation and cost cutting plans to adapt to their new competitive environment and EADS is working on further other cost saving initiatives for effect up to the end of 2014 to improve the competitiveness, compensate inflation and achieve profitability targets.

Anticipated cost savings mentioned above are based on preliminary estimates, however, and actual savings under these programmes may vary significantly. EADS' failure to successfully implement these planned cost reduction measures, or the possibility that these efforts may not generate the level of cost savings it expects going forward, could negatively affect its future results of operation and financial condition. In addition to the risk of not achieving the anticipated level of cost savings from the programmes above, EADS may also incur higher than expected implementation costs. In many instances, there may be internal resistance to the various organisational restructuring and cost reduction measures contemplated.

## Dependence on Certain Suppliers and Subcontractors

EADS is dependent on numerous key suppliers and subcontractors to provide it with the raw materials, parts and assemblies that it needs to manufacture its products. Certain of these suppliers may experience financial or other difficulties in the future, in particular those with a significant foreign currency mismatch between revenues denominated in US dollars and a substantial portion of costs incurred in euro. Depending on the severity of these difficulties, some suppliers could be forced to reduce their output, shut down their operations or file for bankruptcy protection, which could disrupt the delivery of supplies to EADS. It may be difficult for EADS to find a replacement for certain suppliers without significant delay, which could negatively affect EADS' future results of operation and financial condition. EADS may decide in the future to provide financial or other assistance to certain suppliers to ensure an uninterrupted supply of materials and parts, which could expose it to credit risk on the part of such suppliers.

EADS' suppliers or subcontractors may also make claims or assertions against it for higher prices or other contractual compensation, in particular in the event of significant changes to development or production schedules, which could negatively affect EADS' future profitability.

Finally, if the macro-economic environment leads to higher than historic average inflation, the labour and procurement costs of EADS may increase significantly in the future. This may lead to higher component and production costs which could in turn negatively impact EADS' future profitability and cash flows, to the extent EADS is unable to pass these costs on to its customers or require its suppliers to absorb such costs.

## Industrial Ramp-Up

As a result of the large number of new orders for aircraft recorded in recent years, EADS intends to accelerate its production rate in order to meet the agreed upon delivery schedules for such new aircraft. As it nears full capacity, EADS' ability to further increase its production rate will be dependent upon a variety of factors, including execution of internal performance plans, availability of raw materials, parts (such as aluminium, titanium and composites) and skilled employees given high demand by EADS and its competitors, conversion of raw materials into parts and assemblies, and performance by suppliers and subcontractors (particularly suppliers of buyer furnished equipment) who may experience resource or financial constraints due to ramp-up. Management of such factors is also complicated by the development of new aircraft programmes in parallel, in particular at Airbus, which carry their own resource demands. Therefore, the failure of any or all of these factors could lead to missed delivery

commitments, and depending on the length of delay in meeting delivery commitments, could lead to additional costs and customers' rescheduling or terminating their orders.

## Programme-Specific Risks

In addition to the risk factors mentioned above, EADS also faces the following programme-specific risks (while this list does not purport to be comprehensive, it highlights the current risks believed to be material by management):

- *A350 XWB programme.* In connection with the A350 XWB programme, EADS faces the following main challenges: (i) ensuring the maturity of technology linked to composite aspects, (ii) meeting the technical performance targets for the aircraft and respecting the development schedule, (iii) ensuring the production ramp-up and the ramp-up of key skilled personnel, e.g. for composite stress and design, (iv) securing the achievement of recurring cost targets, (v) ensuring that the new Airbus industrial organisation resulting from Power8 supports effective development, (vi) ensuring the performance of the risk sharing partners, including those selected for sites divested by Airbus and those involved in the extended enterprise framework, (vii) maintaining customer satisfaction with a new customisation policy which is a key enabler for the production ramp-up, and (viii) managing customer contracts in coherence with the industrial delivery plan;
- *A380 programme.* In connection with the A380 programme, EADS faces the following main challenges: (i) management of stress in the supply chain as a result of the steep ramp-up in production in coming years, (ii) successful implementation of a digital mock-up for future A380 production, (iii) managing maturity in service and (iv) avoidance of production disruptions and related costs, in particular following a Rolls Royce engine failure at the end of 2010 which could have a knock-on effect for deliveries in 2011;
- *A400M programme.* In connection with the A400M programme, EADS faces the following main challenges: (i) managing a flight test programme that differs significantly from that of commercial Airbus aircraft, (ii) integrating the civil systems (flight management, navigation, etc.) with the complex military systems, (iii) ensuring that the aircraft is both commercially certified and meets the range of military qualifications required by programme customers, (iv) managing the anticipated difficulties on the ramp-up, and (v) meeting the new negotiated time schedule;
- *A320neo programme.* In connection with the A320neo programme, EADS faces the following main challenges: (i) management of stress in the supply chain as a result of the industrial ramp-up, (ii) meeting the engine development status and its schedule, and (iii) ensuring the availability of skilled personnel for the programme;
- *NH90 programme.* In connection with the NH90 programme, EADS faces the following main challenges: (i) meeting the development schedule, the cost objectives and the technical content (full operational configuration of the TTH (Tactical Transport Helicopter) version and final configuration of the NFH (NATO Frigate Helicopter) version) of ongoing development programmes on the numerous versions, (ii) managing the industrial ramp-up on the programme, and (iii) assuring support readiness in connection with multiple fleets entering into service; and
- *Lead systems integration.* In connection with lead systems integration projects (in particular Saudi border surveillance contract), EADS faces the following main challenges: (i) meeting the schedule and cost objectives with a high number of sites to deliver and the integration of commercial off-the-shelf (COTS) products (radars, cameras, sensors) with their interfaces into the system, (ii) assuring an efficient project and staffing ramp-up, and (iii) managing the rollout including subcontractors as well as training and organisational adaptation of the customer.

### 5.4.3. Legal Risks

#### Dependence on Joint Ventures and Minority Holdings

EADS generates a substantial proportion of its revenues through various consortia, joint ventures and equity holdings. While EADS seeks to participate only in ventures in which its interests are aligned with those of its partners, the risk of disagreement or deadlock is inherent in a jointly controlled entity, particularly in those entities that require the unanimous consent of all members with regard to major



decisions and specify limited exit rights. The other parties in these entities may also be competitors of EADS, and thus may have interests that differ from those of EADS.

## Product Liability and Warranty Claims

EADS designs, develops and produces a number of high profile products of large individual value, particularly civil and military aircraft and space equipment. EADS is subject to the risk of product liability and warranty claims in the event that any of its products fails to perform as designed. While EADS believes that its insurance programmes are adequate to protect it from such liabilities, no assurances can be given that claims will not arise in the future or that such insurance cover will be adequate.

## Intellectual Property

EADS relies upon patent, copyright, trademark and trade secret laws, and agreements with its employees, customers, suppliers and other parties, to establish and maintain its intellectual property rights in technology and products used in its operations. Despite these efforts to protect its intellectual property rights, any of EADS' direct or indirect intellectual property rights could be challenged, invalidated or circumvented. In addition, although EADS believes that it lawfully complies with the intellectual property rights granted to others, it has been accused of infringement on occasion and could have additional claims asserted against it in the future. Any claims or litigation in this area, whether EADS ultimately wins or loses, could be time-consuming and costly, injure EADS' reputation or require it to enter into licensing arrangements.

## Export Controls and Other Laws and Regulations

The export market is a significant market for EADS. There can be no assurance (i) that the export controls to which EADS is subject will not become more restrictive, (ii) that new generations of EADS products will not also be subject to similar or more stringent controls or (iii) that geopolitical factors will not make it impossible to obtain export licenses for one or more clients or constrain EADS' ability to perform under previously signed contracts. EADS is also subject to a variety of other laws and regulations that may adversely affect its business and financial condition, including among others, those regulations relating to commercial relationships, the use of its products and dealings with foreign officials.

In addition, EADS is sometimes subject to government inquiries and investigations of its business and competitive environment due, among other things, to the heavily regulated nature of its industry. Any such inquiry or investigation could result in an unfavourable ruling against EADS, which could have a negative effect on its business, results of operation and financial condition.

## Litigation

EADS is currently engaged in a number of legal proceedings. See "Notes to the Consolidated Financial Statements (IFRS) — Note 32: Litigation and claims". EADS expects to continue to incur time and expenses associated with its defence, regardless of the outcome, and this may divert the efforts and attention of management from normal business operations. Although EADS is unable to predict the outcome of these proceedings, it is possible that they will result in the imposition of damages, fines or other remedies, which could have a negative effect on EADS' business, results of operation and financial condition. An unfavourable ruling could also negatively impact EADS' stock price and reputation.

## Industrial and Environmental Risks

Given the scope of its activities and the industries in which it operates, EADS is subject to stringent environmental, health and safety laws and regulations in numerous jurisdictions around the world. EADS therefore incurs, and expects to continue to incur, significant capital expenditure and other operating costs to comply with increasingly complex laws and regulations covering the protection of the natural environment as well as occupational health and safety. In addition, the various products manufactured and sold by EADS must comply with relevant environmental, health and safety and substances/preparations related laws and regulations in the jurisdictions in which they operate. In the event of an accident or other serious incident, EADS may be required to conduct investigations and

undertake remedial activities. Employees, customers and other third parties may also file claims for personal injury, property damage or damage to the environment (including natural resources). Any problems in this respect may also have a significant adverse effect on the competitive reputation of EADS' products.

## 5.5. Human Resources

### 5.5.1. Workforce Information

As of 31 December 2010, the EADS workforce was composed of 121,691 employees. The number of employees compared to 2009 increased slightly in all Divisions. No major changes in consolidation or Division affiliation affected the headcount evolution in the course of 2010.

In 2010, the workforce consisted of 96.6% full time employees. Depending on country and hierarchy level, the average contractual working time is between 35 and 40 hours a week.

In 2010, 5,047 employees worldwide entered employment with EADS (5,663 in 2009). At the same time, 3,213 employees left EADS (3,308 in 2009).

In total, 94.1% of EADS' active workforce is located in Europe on more than 100 sites.

### 5.5.2. Organisation of Human Resources management

The overall mission of Group HR function is to ensure that EADS can attract, develop, and retain a world-class competent, motivated and flexible workforce which fits current and anticipated future business requirements. HR facilitates diversity, continuous integration and internationalization of the Group and contributes to a common EADS spirit. The HR strategy aims at making EADS a global employer of choice and an innovative and engaging place to work for our employees. HR supports managers in their leadership and people management duties and advises employees.

Since 2006, the HR organisation has been further integrated, in line with the Group business requirements. The role of the HR Board consisting of divisional and group HR directors and functional reporting lines from the Divisions to the Group Head of HR fosters a coordinated Group HR policy. The HR function has implemented global shared services for HR administration, payroll, recruitment and learning administration using a common global HR information system. An integrated HR Portal is being implemented on the basis of harmonized HR processes and tools.

These efforts over the last years and the establishment of shared service and governance structures are providing an increasingly integrated HR function. A common HR Delivery Model is in place which entails a harmonized HR Business Partner role definition to ensure a consistent representation of HR in the different businesses. HR Business Partners provide business proximity and ensure people development and HR solutions tailored to business challenges.

Corporate HR ensures the definition and implementation of group-wide HR strategies, policies, processes and projects which are in the overall interest of EADS and thus (i) defines common HR policies together with Divisions and (ii) owns particular topics through sovereign functions (e.g. Talent and Executive Management, Compensation and Benefits as well as Social Policy and Industrial Relations). As such, the Corporate HR team operates as strategic leader and center of competence in reserved HR matters, in close cooperation with the Divisions and Business Units which have the operational HR responsibility. For the sovereign as well as selected key HR topics, formal networks are established which ensure regular meetings of the HR managers and specialists from different domains on both group and national levels.

In 2009, EADS has started a multi-year group wide Engagement Initiative for all the Group employees based on a survey which highlights areas of satisfaction and of frustration amongst the employees.

Following the results of the first survey, in 2010 the main focus of action was recognition of employees, reinforcement of leadership basics, better communication and improvement of empowerment and proximity of managers as well as HR support for the employees.

The second engagement survey, conducted in October 2010, showed a significantly increased participation rate (from 69% in 2009 to 80.5% in 2010) demonstrating that employees are taking this process seriously. The results showed an improvement, confirming the measures taken leading us in the right direction. In particular the investment in the focus areas mentioned above was largely acknowledged by employees. All in all, those teams, that have consistently followed up on actions committed to following the results of the first survey improved their engagement level. In 2011, measures on TRUST, empowerment, proximity and innovation are continued. However, a strong focus will also be put on developing local team level activities with the local support of HR.

## 5.6. Environmental matters

EADS' prominence in aerospace makes it a central player of the sustainable mobility issue and more broadly, of the evolution towards a "green economy".

Following the creation of the EADS Environmental network, the group's first environmental policy was published in 2008; it was translated into a corporate environmental roadmap, issued a year later, which dictates regulatory compliance and continuous improvement in environmental management, and defines specific goals of eco-efficient operations, products and services. To heighten the sense of importance, and incorporate systematically "eco-efficiency" in the corporate culture, EADS has elevated the concept to the rank of 10<sup>th</sup> group wide top priority in 2010: The eco-efficiency concept professes the reconciliation of environmental protection with business economy (maximizing economic value creation while minimizing environmental impact) and stresses environmental compliance and management as much as business opportunities.

### 5.6.1. Managing Environmental impact of activities and products throughout the life cycle

#### Environmental Management System (EMS)

ISO 14001 is an internationally recognized standard of EMS efficiency for businesses and organisations. Over 90% of EADS employees operate under an ISO 14001 and further progress was achieved in 2010 in terms of ISO 14001 coverage and certification renewal. The site and product life cycle orientation of EMS purports to create economic value by reducing environmental costs and exposure at each stage of the product life, from design to operations up to end of life.

#### At the research and development stage

EADS' main focus is to enable the whole aviation sector to meet stringent 2020 and 2050 targets (halving the emissions) for reducing noise and emissions. EADS divisions have major roles in cooperative projects such as:

- MOZAIC, COMET, IAGOS, and QUANTIFY (projects to monitor gas and water vapour in the upper troposphere and better understand air components, meteorology and climate change phenomenon);
- CORINE (a European Union funded project focusing on a collaborative eco-design tool for small and medium size companies); or
- Clean Sky (a seven-years, €1.6 billion joint technology initiative, seeking to meet the ACARE research objectives). As much as 80% of the Research and Technology budgets in Airbus and Eurocopter are devoted to finding ways to increase eco-efficiency and reduce pollution.

## At the supply chain level

EADS strives to keep the environmental impact of its entire supply chain under control, and it helps its suppliers to improve, notably for compliance with regulatory requirements regarding various substances content in products. To mitigate non trivial business risks, a large mobilization is underway to support the EADS supply chain on complex substances related regulations such as REACH.

## At the manufacturing level

Production processes are being reviewed in order to include eco-efficiency criteria in Capex and production processes on a systematic basis.

The plan to reduce the overall Energy/CO<sub>2</sub> footprint as part of the vision 2020 includes a series of measures towards more sustainable sources of energy and more energy efficient infrastructures e.g. renewable energy heating systems in assembly line buildings such as geothermal in Getafe, solar panels in San Pablo, biomass boilers in Broughton, photovoltaic cells and bio climatic A350 building in Toulouse, New Eco shaped building in Hamburg, and optimized natural light windows in Tianjin).

To monitor progress, and to comply with reporting obligations, EADS-wide Environmental reporting has been ramping up for the past two years. In the frame of EADS Corporate Responsibility and Sustainability Report, CO<sub>2</sub> and energy indicators were externally audited in March 2010.

## Aircraft operations:

Over the last 40-50 years, the aviation sector has reduced noise by 75% and CO<sub>2</sub> by 70%. Yet, environmental performance is mandated to improve further and is a major focus of attention.

While its fuel saving technology is a compelling argument for airlines, the A380's, noise and fuel efficiency (< 3 litres fuel consumption / passenger / 100km, vs. 5 litres average for the worldwide fleet) remains unsurpassed for its category.

In line with the ambitious ACARE targets, some Top Level Aircraft Requirements were set for the environmental performance of the A320neo Family. For instance, based on realistic airline operations assumptions, the fuel burn target (of: -15% aircraft level fuel burn relative to today's A320) translates into a saving of close to 4000t of CO<sub>2</sub> per year.

In February 2010, Eurocopter started fostering the adoption of a noise and emissions rating for helicopters: official marketing started at the HAI show, and the concept is being promoted for ICAO validation. Besides, Eurocopter presented the blue edge blades and blue pulse controls concepts in the frame of the Bluecopter initiative.

Beyond aircraft development, EADS is assuming a leading role in developing integrated solutions for enhanced environmental performance including modernization of Air Traffic Management (ATM). EADS divisions have been involved in the "Single European Sky ATM research" joint undertaking (SESAR) since inception; Airbus also participates in NextGen, the corresponding US project, to ensure interoperability of systems.

EADS is pioneering sustainable<sup>2</sup> biofuels, made from bio-mass feedstock that fix carbon dioxide as they grow, thereby offsetting emissions when they are burned. EADS has been working with universities, fuel companies and start-up companies, as well as standard-setting organisations, to develop "drop-in" biofuels (that work with existing aircraft and infrastructure). In 2010, Airbus supported a project by TAM airline to develop a complete value chain in Brazil, starting with an A320 flight using a kerosene and biofuel blend on one engine. Lufthansa now intends to regularly operate A321 passenger flights between Hamburg and Frankfurt from April 2011, flying one engine with the same blend.

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<sup>2</sup> EADS defines sustainable bio-fuels as neither competing with land/water resources used for food production nor destroying rain forests

## End of life and recycling of aircraft

This process deserves consideration: over 6,000 aircraft will be recycled over the next 20 years, as they are replaced by more fuel and CO<sub>2</sub> efficient aircraft. Airbus has developed sustainable dismantling and recycling techniques that comply with environmental, health and safety requirements, and it is increasingly incorporating this knowledge upstream into aircraft design.

### 5.6.2. EADS: a warehouse of technology, contributing to the environmental Offer

EADS evolving technology portfolio, arising from Aerospace and Defence research, has applications inside and outside its core business, contributing to environmental innovation across other sectors.

Illustrating this approach, Astrium is positioning its observation, navigation, telecom satellites and services as enablers of three component solutions to earth's environmental challenges: Monitoring (to provide policy makers with solid data for decisions), Mitigation (of the negative impact of human activities), and Adaptation (to environmental degradation).

Satellites are long established as a Monitoring tool for environmental scientists and policy makers. Astrium observation technologies provided to the European Space Agency become durable monitoring tools within the EU GMES programme.

Space is also an invaluable vantage point, for the Adaptation segment, in times of crisis (extreme weather, floods, forest fires, earthquakes, etc.) to support rescue teams with terrain data and victim location, or to do preventive mapping of vulnerable zones. On the Mitigation front, Astrium offers services to agriculture that help to reduce the use of fertilizers.

In 2010, (i) Europe's ice research satellite CryoSat-2, built by Astrium, was placed in its polar orbit to provide unique measurements of the arctic and Antarctic ice covers; (ii) the Franco-Spanish SMOS (Soil Moisture and Ocean Salinity mission) satellite for which Astrium built a breakthrough radiometric instrument, was launched to effect measures on a global scale, and better understand the Earth's water cycle and ultimately climate change; (iii) a significant agreement was signed with the AFD (Agence Française de Développement) for the provision of satellite observation data to countries that own tropical forests, allowing them to assess their CO<sub>2</sub> retention capacity for the carbon-credit market.

## 5.7. Research and Technology Management

Today's rapidly changing business environment demands new aerospace innovation that answers society's requirements concerning the environment, security and mobility. EADS' research and technology management (R&T) is tightly linked to improve the Group's competitiveness to answer these needs. Research & Technology plays a central role in helping EADS remain competitive by driving forward the spirit of innovation. The EADS Corporate Technical Office (CTO) organization ensures that business strategy and technology strategy are closely aligned.

The CTO delivers shareholder value through a deliberate, leading-edge R&T portfolio that enables the introduction of new technologies. CTO also fosters long-term customer relationships by developing high value solutions which meet the technological, performance, safety, and cost competitive pressures that the company faces. The EADS R&T strategy is also driven by the need for successful on time, on quality, on price introduction of new products and processes that include IT technology and services. The scope of R&T within EADS covers a wide spectrum of technological domains. R&T activities are targeted at various levels in the value chain and the R&T strategy is structured according to the timelines of short term/committed programmes, medium term/optional programmes and long term/advanced concepts.

The R&T activities for advanced concepts include Integrated Demonstrators and Technological/Operational Studies. Today, all EADS Divisions work to generate new product concepts in line with the Company's vision and to maximize its future business potential. These concepts explore

and generate completely new ideas, while pushing the limits of what is technically possible. During 2010, the research portfolio was currently focused around four growth axes: mobility, sustainable aviation (e.g. biofuel developments and diesel-electric propulsion concepts), safety and security (e.g. ULIS and aircraft safety) and services (e.g. in service health monitoring, mid-life upgrades, MRO).

EADS also dedicates resources to assess emerging ideas and concepts through several programs including *Free Scouting and the EADS Nursery*. EADS R&T management endeavors to develop Key Product Technologies, which means, for example, constantly looking for new ideas, materials and equipment and experimenting with them on prototypes before they are deployed on a large scale. In doing so, the Company develops privileged relationships which equal 354 partnerships in over 30 countries. EADS R&T activities in these areas are aimed to identify emerging concepts and to further develop these technologies. EADS identifies emerging technologies through its internal research network known as Technological Capability Centers: that will drive future performance for seven key technology areas: Composites Technologies, Metallic Technologies & Surface Engineering, Structures Engineering, Production & Aeromechanics, Sensors, Electronics & Systems Integration, Engineering, Physics, IT and Energy & Propulsion.

R&T management also includes the “architect’s toolbox” which develops and masters the state of the art tools, and enables EADS to be an efficient industrial architect. The toolbox encompasses virtual product engineering as well as safe and mature on board software development.

EADS CTO has developed a plan to leverage and further mature its participation in venture capital funds in order to identify and source emerging technologies. It is of key importance for EADS to detect disruptive technologies that could contribute to the Company’s portfolio of products. Through EADS Innovation Works, the research arm of the CTO and partnerships with external laboratories around the world, EADS monitors and evaluates closely different technologies such as fuel cells, secure communications, photonics, nanotechnologies and hybrid materials – among many others.

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

## 6. Financial Targets for 2011

EADS’ 2011 guidance is based on an assumption of € 1 = \$ 1.35 for average and year-end closing spot rates.

In 2011, Airbus should deliver 520 to 530 commercial aircraft and its gross orders should be above its deliveries. EADS’ 2011 revenues should be above the 2010 revenues.

EADS expects 2011 EBIT\* before one-off to remain stable compared to the 2010 level, at around € 1.3 billion. Increasing volume and price improvement at Airbus Commercial are roughly compensated by the deterioration of hedge rates, increasing R&D and less favourable mix of activities at Cassidian. Going forward, the reported EBIT\* and EPS performance of EADS will be dependent on the Group’s ability to execute on the A400M, A380 and A350 XWB programmes, in line with the commitments made to its customers. Reported EBIT\* and EPS also depend on exchange rate fluctuations.

At € 1 = \$ 1.35, EADS expects 2011 EPS to be above the 2010 level of € 0.68.

Free Cash Flow is expected to be positive. It is the most volatile item and EADS will give a more precise guidance later in the year.

In 2012, the Group expects a significant improvement in its EBIT\* before one off thanks to higher volume, better pricing and further improvement of A380 performance at Airbus.



## 7. EADS Strategic challenges

The following strategic challenges of EADS have been published in the Group's Vision 2020 which outlines EADS' long-term objectives and has been discussed throughout various management levels, as well as the Board. All such objectives must be understood to be long-term management ambitions, the achievement of which is subject to risks as outlined in section - 5.4 Risk factors.

### 7.1. Group strategic challenges

EADS has one of the broadest aerospace platform portfolios and has the world's largest order backlog in 2010, making the group a global leader in its sector. With its Vision 2020, EADS strives to become the worldwide leader in air and space platforms and systems (mainly platform related systems architecture and integration) with a complete portfolio of products, both commercial and governmental. Globally, this implies that EADS aims to reach a revenue balance between Airbus commercial aircraft manufacturing and other Group businesses by 2020 incl. services. For some of the main European defence budgets, significant reductions have been announced in the coming year and some capabilities may no longer be sustainable on a national level. Consequently, EADS has to ensure close cooperation with all its customers and careful cash management in order to protect the group and weather the current environment.

To support the business and long term positioning of EADS, organic growth needs to be fostered and supported by investments areas securing future core competencies and improving access to markets and customers. In this respect, external growth through acquisitions or partnerships may be pursued, especially in Asia, the Middle-East and the Americas.

EADS has defined its option for a strategic vision, where priority is given to platforms and systems and services. This option provides a new growth engine fuelled by the expansion of the in service fleet and the expected transfer of responsibilities and outsourcing from defence/governmental bodies and armed forces to the private sector. Therefore, EADS targets a 25% services share of business by 2020, focusing on high value services initially related to platforms, requiring and developing both customer intimacy and product intimacy. EADS will increasingly focus on core, which means going towards this new business model approach and reallocate resources which are currently locked in non core legacy activities.

Demand for outsourced services is rising in the market, either driven by cost / revenue constraints or driven by operational efficiency requirements. Training, Advanced In Service Support and air traffic management systems remain segments with a positive outlook in the coming years. Also in Defence procurement, demand patterns evolve and there is an increasing trend towards outsourcing and services. The operating environment changes in the defence sector with an increase in coalition led engagements, international cooperation and mutualisation of funds to compensate for declining / flat budgets. IT and cyber security threats has also emerged as a key issue to which more and more focus is given by governments and where counter measures and protections increase in demand.

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

EADS will also continue to drive necessary improvements to achieve a best in class operational and financial efficiency within the decade 2010-2020, depending on the average value of the euro-dollar exchange rate and the development of the commercial cycle. The improvements have to come through internal costs control, optimal resource allocation, enhanced programme execution and risk management, ability to cope with the US\$ volatility as well as growth, particularly of more profitable segments.



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

A significant part of EADS sourcing volumes and employees are in Europe (although a majority of the revenues come from outside Europe). Access to markets and technology resources, cost optimization and protection against dollar volatility mean that EADS needs to reinforce the industrial footprint and partnership-building outside Europe whilst protecting core technologies and optimising our industrial base in Europe. In this context, EADS will aim for an ambitious target of 40% of EADS sourcing and 20% of EADS employees outside of Europe in 2020. To enhance EADS US industrial base, the long term goal will also be to achieve \$10 billion revenues in North America mainly addressing a defence, security and space related customer base and gain a prime position with US Government. In general, reasonable acquisitions will be required as a mean to achieve Vision 2020 goals and in particular to expand EADS global reach.

Defence budgets in home countries will experience cuts over the coming years, although the impact on industry is not yet clear. In the US, specific defence programs are facing severe cuts. In other countries, focus on operational efficiencies while protecting investments in new equipment, is being preferred. For example, as part of its effort to reduce defence spending, Germany has decided to transform the Bundeswehr into a fully professional service by 2011. These budget trends may drive a further consolidation/restructuring within selected segments of the defence industry. In this context, EADS must constantly monitor the development of potential opportunities, in particular acquisitions in areas of strategic interest such as aerospace platforms, defence-, security- and space- systems and electronics as well as related activities in service support throughout the overall EADS portfolio.

Another trend, which could help balance budget reductions in EU is the increased spending in emerging countries. For example over the ten past years, Saudi Arabia and India's defence budgets have increased by two thirds; and Brazil's by more than a third. Defence exports from the EU and North America have also increased dramatically in recent years to Turkey, Pakistan, Singapore, the Baltic States, the UAE, Qatar, Malaysia, and Japan.

EADS is consistently moving towards becoming an eco-efficient Company and is acting to sustain future development. With a clear objective to reconcile environmental protection and economic sustainability, EADS intends to meet increasing demand for aeronautic/space/defence products while minimising environmental impacts in the most economical and efficient way. As an example, at Airbus, concrete commitments up to 2020 have been agreed and communicated. Clear policy, measurable objectives including the complete EADS portfolio need to be considered in the frame of consistent Environmental Management Systems (ISO 14001) to be set up.

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

EADS was created with the ambition to become an integrated industrial group with worldwide leadership in A&D. EADS' organisation and human resources should be the key means of achieving this goal. At all levels, a leaner, more integrated, fully transparent and more efficient structure is needed to strengthen the coherence of actions and exploitation of synergies, taking advantage of integration. At Group level, the integration programme "Future EADS" is underway and will continue to reinforce efficiencies, integration and synergies. These initiatives should, however, not distort the operational capabilities and accountabilities of the Divisions, as financial objectives have to be met and industrial programmes executed at this level.

Finally, EADS needs motivated and competent employees. EADS leadership culture is based on mutual trust, empowerment, recognition and accountability. Employee development is core activity of EADS managers. To this end, it is the duty of EADS and its management to provide employees with the opportunities to meet their professional expectations develop their professional skills and realize their personal potential. This requires an active management development based on a new leadership model. EADS will also encourage stronger mobility and greater internal diversity in the teams. These

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

## 7.2. Divisions Outlook

### Airbus

Looking ahead to 2011, Airbus commercial is targeting a further increase in deliveries to between 520 and 530, with strong airline demand for new and more eco-efficient aircraft leading to new orders exceeding the number of deliveries.

Airbus Military will begin A400M series production and proceed towards civil certification of the aircraft, which it plans to obtain before the end of the year.

In financial terms, profitability is likely to remain stable in the short term but should significantly improve in the medium term.

### Eurocopter

Recovery in the civil segment is slow, in particular due to a high number of second-hand helicopters on the market. An upturn is expected from 2012 onwards. In the military market, the outlook is subject to governments' budget policies which may weigh on military and parapublic orders.

In 2011 Eurocopter will pursue its innovation strategy investing in new product and services development and upgrade. The network of industrial capabilities and training and maintenance centres will be further extended. These strategic actions will secure the competitiveness of Eurocopter's products and services for the future.

The SHAPE transformation programme, which aims to generate, compared to the 2009 cost basis, savings of €200 million by the end of 2011, was implemented early 2010 to counter the economic downturn and respond to competitive challenges and is more than half way towards achieving its cost savings target. In addition, SHAPE has already delivered results in terms of new product developments, enhanced customer service, innovation and streamlined organization. Additional benefits from the SHAPE programme are expected in 2011.

### Astrium

Astrium's medium-term market may become more competitive with government budgets under pressure and increasing global competition.

Multi-year military and civil institutional contracts will limit the impact of the deteriorating competitive landscape in 2011. However, Services business lines such as Telecommunication and Geo-Information are likely to be affected by lower military and governmental demand, leading to short term stabilisation of revenues.

Longer term, the profitability of the Division should gradually improve due to new ways of working after the implementation of the transformation programme AGILE.

### Cassidian

Cassidian will seek to consolidate its position in its European home markets in the context of contracting domestic budgets. In parallel, Cassidian is focusing activities on strategic growth markets such as India, Brazil and the Middle East region with the objective of developing a long-term industrial presence. Cassidian's large system integration capabilities and its experience in leveraging complex technologies and customer proximity will remain the key enablers in securing the future growth of these activities. This medium to long term transformation process aims to achieve a well balanced and optimised positioning of Cassidian from a geographic and solution offering perspective.

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

For further information and detail regarding EADS' activities, finances, financing, risk factors and corporate governance, the reader should refer to the EADS website at [www.eads.com](http://www.eads.com).

The Board of Directors hereby declares that, to the best of its knowledge:

- The financial statements for the year ended 31 December 2010 give a true and fair view of the assets, liabilities, financial position and profits or losses of EADS and undertakings included in the consolidation taken as a whole; and
- This Board Report gives a true and fair view of the position as per the balance sheet date, and of the development and performance during the 2010 financial year of EADS and undertakings included in the consolidation taken as a whole, and the principal risks facing EADS have been described herein.

### **The Board of Directors**

Bodo Uebber, Chairman

Louis Gallois, Chief Executive Officer

Rolf Bartke, Director

Dominique D'Hinnin, Director

Juan Manuel Eguiagaray Ucelay, Director

Arnaud Lagardère, Director

Hermann-Josef Lamberti, Director

Lakshmi N. Mittal, Director

Sir John Parker, Director

Michel Pébereau, Director

Wilfried Porth, Director

Leiden, 8 March 2011