

# Business, Legal and Corporate Responsibility 2005



The step beyond

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The complete EADS Annual Report Suite  
2005 consists of:



Annual Review  
2005 (1)



Financial Statements and  
Corporate Governance  
2005 (2)



Business, Legal and  
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2005 (3)  
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EADS

| BUSINESS, LEGAL  
AND CORPORATE  
RESPONSIBILITY

# EADS Registration Document

## Part 2

### (Business, Legal and Corporate Responsibility)

European Aeronautic Defence and Space Company EADS N.V. (the “**Company**” or “**EADS**”) is a Dutch company, which is listed in France, Germany and Spain. Given this fact, the applicable regulations with respect to public information and protection of investors, as well as the commitments made by the Company to securities and market authorities, are described in this registration document (the “**Registration Document**”).

This Registration Document was prepared in accordance with Annexe 1 of the EC Regulation 809/2004, filed in English with, and approved by, the *Autoriteit Financiële Markten* (the “**AFM**”) on 26th April 2006 in its capacity as competent authority under the *Wet toezicht effectenverkeer 1995* (as amended) pursuant to the Directive 2003/71/EC. When used as a Registration Document, this document entitled Business, Legal and Corporate Responsibility - (Registration Document Part 2) must be read in conjunction with the document entitled Financial Statements and Corporate Governance - (Registration Document Part 1). This Registration Document may be used in support of a financial transaction as a document forming part of a prospectus in accordance with Directive 2003/71/EC only if it is supplemented by a securities note and a summary approved by the AFM.

# Business, Legal and Corporate Responsibility

Registration Document - **Part 2**

1

Information  
on EADS Activities

2

Corporate Social  
Responsibility

3

General Description  
of the Company  
and its Share Capital

4

Entity Responsible  
for the Registration  
Document

# Financial Statements and Corporate Governance

## Registration Document – Part 1

<b>Risk Factors</b>	<b>p. 7</b>		
1. Financial Market Risks	p. 8		
2. Business-Related Risks	p. 10		
3. Legal Risks	p. 13		
4. Industrial and Environmental Risks	p. 14		
<b>Chapter 1 - Net Assets Financial Position Results</b>	<b>p. 15</b>		
1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations	p. 16		
1.1.1 Certain Information	p. 16		
Exchange Rate Information	17		
Ratings	17		
1.1.2 Overview	p. 17		
1.1.3 Critical Accounting Considerations, Policies and Estimates	p. 18		
1.1.3.1 Scope of and Changes in Consolidation Perimeter	p. 18		
1.1.3.2 Fair Value Adjustments	p. 19		
1.1.3.3 Impairment of Assets	p. 19		
1.1.3.4 Research and Development Expenses	p. 20		
1.1.3.5 Accounting for Hedged Foreign Exchange Transactions in the Financial Statements	p. 20		
1.1.3.6 Accounting for Foreign Currency Denominated Operations in the Financial Statements	p. 21		
1.1.3.7 Accounting for Sales Financing Transactions in the Financial Statements	p. 21		
1.1.4 Measurement of Management's Performance	p. 22		
1.1.4.1 Order Backlog	p. 22		
1.1.4.2 Use of EBIT*	p. 24		
1.1.4.3 EBIT* Performance by Division	p. 25		
1.1.5 EADS Results of Operations	p. 28		
Consolidated Revenues	29		
Consolidated Cost of Sales	31		
Consolidated Selling and Administrative Expenses	32		
Consolidated Research and Development Expenses	32		
Consolidated Other Income and Other Expense	32		
Consolidated Amortisation of Goodwill	32		
Consolidated Share of Profit from Associates and Other Income (Expense) from Investments	32		
Consolidated Interest Result	33		
Consolidated Other Financial Result	33		
Consolidated Income Taxes	33		
Consolidated Minority Interests	34		
Consolidated Net Income (Profit for the Period Attributable to Equity Holders of the Parent)	34		
Earnings per Share (EPS)	34		
1.1.6 Statement of Changes in Consolidated Total Equity (including Minority Interests)	p. 35		
IAS 39 Related Impact on AOCI	35		
Currency Translation Adjustment Impact on AOCI	36		
1.1.7 Liquidity and Capital Resources	p. 36		
1.1.7.1 Cash Flow	p. 37		
1.1.7.2 Consolidated Cash and Cash Equivalents	p. 39		
1.1.7.3 Consolidated Financial Liabilities	p. 40		
1.1.7.4 Sales Financing	p. 40		
1.1.8 Hedging Activities	p. 44		
1.1.8.1 Foreign Exchange Rates	p. 44		
1.1.8.2 Interest Rates	p. 46		
<b>1.2 Financial Statements</b>	<b>p. 47</b>		
1.2.1 Consolidated Financial Statements (IFRS)	p. 48		
<b>Appendix: Information on principal investments - Consolidation Scope</b>	<b>p. 105</b>		
1.2.2 Company Financial Statements	p. 112		
<b>1.3 Statutory Auditors' Fees</b>	<b>p. 124</b>		
<b>1.4 Information Regarding the Statutory Auditors</b>	<b>p. 125</b>		

<b>Chapter 2 - Corporate Governance</b>	<b>p. 127</b>	<b>Chapter 3 - Outlook</b>	<b>159</b>
<b>2.1 Management and Control</b>	<b>p. 128</b>	<b>3.1 2006 Financial Outlook</b>	<b>p. 160</b>
2.1.1 Board of Directors, Chairmen and Chief Executive Officers	p. 128	<b>3.2 2006 Calendar of Financial Communication</b>	<b>p. 161</b>
2.1.2 Audit Committee	p. 138		
2.1.3 Remuneration and Nomination Committee	p. 139		
2.1.4 Executive Committee	p. 139		
<b>2.1.5 Internal Control and Risk Management Systems</b>	<b>p. 141</b>		
2.1.5.1 Overview	p. 141		
2.1.5.2 Risk Management System	p. 142		
2.1.5.3 Internal Control Framework	p. 143		
2.1.5.4 Business Processes Covered by Internal Control Framework	p. 144		
2.1.5.5 Outlook for Evolution of EADS' IC and RM Systems	p. 148		
<b>2.2 Interests of Directors and Principal Executive Officers</b>	<b>p. 149</b>		
2.2.1 Compensation Granted to Directors and Principal Executive Officers	p. 149		
2.2.2 Options Granted to the Two Chief Executive Officers	p. 150		
2.2.3 Related Party Transactions	p. 150		
2.2.4 Loans and Guarantees Granted to Directors	p. 151		
<b>2.3 Employee Profit Sharing and Incentive Plans</b>	<b>p. 152</b>		
2.3.1 Employee Profit Sharing and Incentive Agreements	p. 152		
2.3.2 Employee Share Offering	p. 152		
2.3.3 Options Granted to Employees	p. 155		

# EADS Business, Legal and Corporate Responsibility

## Registration Document – Part 2

<b>Chapter 1 - Information on EADS Activities</b>	<b>p. 7</b>	<b>2.2 Sustainable Growth</b>	<b>p. 69</b>
<b>1.1 Presentation of the EADS Group</b>	<b>p. 8</b>	<b>2.2.1 Product Quality and Customer Satisfaction</b>	p. 69
<b>1.1.1 Overview</b>	p. 8	<b>2.2.2 Sustaining and Protecting Innovation</b>	p. 71
2005 Highlights	8	<b>2.2.3 Supplier Management: Fostering a Mutually Beneficial Relationship with EADS' Suppliers</b>	p. 74
Strategy	8	<b>2.3 Environmental Care</b>	<b>p. 78</b>
Organisation of EADS Businesses	10	<b>2.3.1 Policy</b>	p. 78
Summary Financial and Operating Data	12	<b>2.3.2 Organisation</b>	p. 78
Relationship Between EADS N.V. and the Group	13	<b>2.3.3 Performance and Best Practices</b>	p. 79
<b>1.1.2 Airbus</b>	p. 14	<b>2.4 Human Resources: Employer – Employee Relationship</b>	<b>p. 82</b>
<b>1.1.3 Military Transport Aircraft</b>	p. 23	<b>2.4.1 Workforce Information and Organisation of Work</b>	p. 82
<b>1.1.4 Eurocopter</b>	p. 28	<b>2.4.2 Human Resources Organisation</b>	p. 83
<b>1.1.5 Defence &amp; Security Systems</b>	p. 32	<b>2.4.3 Human Resources Policies and performances</b>	p. 84
<b>1.1.6 Space</b>	p. 42	2.4.3.1 Health and Safety: Providing a Safe Workplace for EADS Employees and Subcontractors	p. 84
<b>1.1.7 Other Businesses</b>	p. 50	2.4.3.2 Caring for EADS Employees and EADS Know How Policy	p. 84
<b>1.1.8 Investments</b>	p. 52	2.4.3.3 Diversity: Commitment to Ensure Equal Opportunity for all EADS Employees	p. 85
<b>1.1.9 Insurance</b>	p. 53	2.4.3.4 Career Development: Efficient Management of Skills and Know-How	p. 87
<b>1.1.10 Legal and Arbitration Proceedings</b>	p. 54	2.4.3.5 Employee Relations: A Proactive Dialogue	p. 90
<b>1.1.11 Incorporation by Reference</b>	p. 55	<b>2.5 Corporate Citizenship</b>	<b>p. 92</b>
<b>1.2 Recent Developments</b>	<b>p. 56</b>	<b>2.5.1 Maintaining an Open Dialogue with EADS' Stakeholders</b>	p. 92
<b>Chapter 2 - Corporate Social Responsibility</b>	<b>p. 59</b>	2.5.1.1 Policy	p. 92
<b>2.1 Business Ethics</b>	<b>p. 63</b>	2.5.1.2 Organisation	p. 92
<b>2.1.1 Proper Business Practices</b>	p. 63	2.5.1.3 Performance and Best Practices	p. 92
<b>2.1.2 Compliance with Law Regarding all EADS' Activities</b>	p. 65	<b>2.5.2 Encompassing Community Interests in EADS' Global Strategy</b>	p. 93
<b>2.1.3 Corporate Governance Standards</b>	p. 67	2.5.2.1 Policy	p. 93
2.1.3.1 Policy	p. 68	2.5.2.2 Organisation	p. 93
2.1.3.2 Organisation	p. 68	2.5.2.3 Performance and Best Practices	p. 93



## Chapter 3 - General Description of the Company and its Share Capital

<b>3.1</b>	<b>General Description of the Company</b>	<b>p. 96</b>
3.1.1	Commercial and Corporate Names, Seat and Registered Office	p. 96
3.1.2	Legal Form	p. 96
3.1.3	Governing Law — Dutch Regulations	p. 96
3.1.3.1	<i>Ongoing Disclosure Obligations</i>	97
3.1.3.2	<i>Disclosure of Specific Information</i>	99
3.1.4	Date of Incorporation and Duration of the Company	p. 101
3.1.5	Objects of the Company	p. 101
3.1.6	Commercial and Companies Registry	p. 101
3.1.7	Inspection of Corporate Documents	p. 101
3.1.8	Financial Year	p. 101
3.1.9	Allocation and Distribution of Income	p. 102
3.1.9.1	Dividends	p. 102
3.1.9.2	Liquidation	p. 102
3.1.10	General Meetings	p. 102
3.1.10.1	Calling of Meetings	p. 102
3.1.10.2	Right to Attend Meetings	p. 102
3.1.10.3	Majority and Quorum	p. 103
3.1.10.4	Conditions of Exercise of Right to Vote	p. 104
3.1.11	Disclosure of Holdings	p. 104
3.1.12	Mandatory Tender Offers	p. 106
<b>3.2</b>	<b>General Description of the Share Capital</b>	<b>p. 108</b>
3.2.1	Modification of Share Capital or Rights Attaching to the Shares	p. 108
3.2.2	Issued Share Capital	p. 108
3.2.3	Authorised Share Capital	p. 109
3.2.4	Securities Granting Access to the Company's Capital	p. 109
3.2.5	Changes in the Issued Share Capital Since Incorporation of the Company	p. 110
<b>3.3</b>	<b>Shareholdings and Voting Rights</b>	<b>p. 111</b>
3.3.1	Shareholding Structure	p. 111

3.3.2	Relationships with Principal Shareholders	p. 113
3.3.3	Form of Shares	p. 119
3.3.4	Changes in the Shareholding of the Company Since its Incorporation	p. 119
3.3.5	Persons Exercising Control over the Company	p. 121
3.3.6	Simplified Group Structure Chart	p. 121
3.3.7	Purchase by the Company of its Own Shares	p. 123
3.3.7.1	Dutch Law and Information on Share Buy-Back Programmes	p. 123
3.3.7.2	French Regulations	p. 123
3.3.7.3	German Regulations	p. 124
3.3.7.4	Spanish Regulations	p. 124
3.3.7.5	Description of the Share Buy-Back Programme to be Authorised by the Annual General Shareholders' Meeting to be held on 4th May 2006	p. 124
<b>3.4</b>	<b>Dividends</b>	<b>p. 128</b>
3.4.1	Dividends and Cash Distributions Paid Since the Incorporation of the Company	p. 128
3.4.2	Dividend Policy of EADS	p. 128
3.4.3	Unclaimed Dividends	p. 128
3.4.4	Taxation	p. 129
<b>3.5</b>	<b>Annual Securities Disclosure Report</b>	<b>p. 131</b>

## Chapter 4 - Entity Responsible for the Registration Document 133

4.1	Entity Responsible for the Registration Document	p. 134
4.2	Statement of the Entity Responsible for the Registration Document	p. 134
4.3	Information Policy	p. 135
4.4	Undertakings of the Company Regarding Information	p. 135



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# 1

## Information on EADS Activities

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<b>1.1</b>	<b>Presentation of the EADS Group</b>	<b>p. 8</b>	<b>1.2</b>	<b>Recent Developments</b>	<b>p. 56</b>
1.1.1	Overview	p. 8			
1.1.2	Airbus	p. 14			
1.1.3	Military Transport Aircraft	p. 23			
1.1.4	Eurocopter	p. 28			
1.1.5	Defence & Security Systems	p. 32			
1.1.6	Space	p. 42			
1.1.7	Other Businesses	p. 50			
1.1.8	Investments	p. 52			
1.1.9	Insurance	p. 53			
1.1.10	Legal and Arbitration Proceedings	p. 54			
1.1.11	Incorporation by Reference	p. 55			

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# 1.1 Presentation of the EADS Group

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## 1.1.1 Overview

*Due to the nature of the markets in which EADS operates and the confidential nature of its businesses, any statements with respect to EADS' competitive position set out in paragraphs 1.1 through 1.1.8 below have been based on EADS' internal information sources, unless another source has been specified below.*

With consolidated revenues of €34.2 billion in 2005, 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 systems, and a leading supplier of military aircraft, satellites and defence electronics. In 2005, it generated approximately 77.5% of its total revenues in the civil sector and 22.5% in the military sector.

### 2005 Highlights

Over the course of the year, EADS continued to position itself for sustained growth and profitability, in line with its strategy of being a leading company in the major global aerospace and defence markets. The record order book of €253 billion at the end of 2005 (consisting of €201 billion in commercial business and €52 billion in defence) constitutes a considerable asset for EADS' future growth.

EADS' business environment in 2005 was characterised by a record year for the aviation industry. Airlines ordered an unprecedented number of commercial aircraft, led by strong demand from low cost carriers and the rapid growth of commercial aviation in Asia. Higher oil prices contributed to an increased demand for fuel-efficient aircraft. In 2005, the two leading aircraft manufacturers combined secured 2,140 new orders for aircraft of 100 seats or more last year, compared with the previous record of 1,528 in 1989 and 1,131 at the peak of the last cycle in 2000. As recently as 2003, orders touched a cyclical low of 524.

For the third year in a row, Airbus delivered more aircraft and took in more orders than Boeing. Airbus received 1,111 gross orders in 2005, representing over 52% of gross new aircraft orders for the year. Airbus delivered 378 aircraft in 2005 (320 aircraft in 2004). In 2005, the A380 made its first flight on 27th April. At year-end, total firm orders for the A380 stood at 159 from 16 customers. In October 2005, to complement the long-range family of Airbus, the EADS Board of Directors approved the industrial launch of the A350 aircraft. At the end of 2005, Airbus had obtained 172 orders and commitments from 13 customers for the A350.

Expanding EADS' capabilities and business revenues in the defence sector is a core strategic priority for the Group. Although sales in the defence sector remained subject to constrained procurement budgets in EADS' home markets, defence-related revenues remain stable at €7.7 billion and the defence-related order book grew from €49 billion at year-end 2004 to €52 billion at year-end 2005. Contributing to this achievement in 2005 were Spain's order for the Taurus air-to-ground missile, an order for Eurofighter self-protection electronics, India's order for Exocet missiles and France's appointment of EADS to develop a new army information and communication system. As part of the Medium Extended Air Defence System ("MEADS") International consortium, EADS was awarded a key role in designing and developing the tri-national MEADS system.

The Space Division confirmed its return to profitability in 2005, reflecting the positive impact of two years of major industrial reengineering. EADS Space finished the year with a positive EBIT\* of €58 million (as compared to €9 million in 2004).

### Strategy

In order to maximise value for its shareholders and to balance its portfolio, the management of EADS (the "Management") intends to position EADS as a leading company in major global aerospace and defence markets.

EADS has defined four strategic goals to sustain continuous growth and profitability improvements.

*Maintain the long-term parity in commercial aircraft:* EADS will strive to lead the commercial aircraft market in terms of product innovation and customer satisfaction, and to further develop its international partnerships.

*Develop strong growth drivers in EADS' non-Airbus portfolio:* Faced with governmental procurement budget constraints and the scarcity of new programs in Europe, EADS intends to pursue its growth strategy by taking a global approach, with strategic acquisitions of businesses in key markets and with enhanced efforts to offer new solutions capitalizing on EADS' ability to leverage its broad base of capabilities and products.

*Become a truly global industrial group:* To insure access to the growth potential of markets where the traditional commercial approach has reached its limits, EADS is designing a long-term industrial strategy and implementing an industrial footprint in key markets around the world.

*Achieve best-in-class profitability:* EADS seeks to reach its long-term strategic goals, while achieving best in class profitability, in every segment in which it operates. The Group has already increased EBIT\* margin from 5.5% in 2001 to 8.3% in 2005 (its highest ever EBIT\* margin level), and intends to further improve its EBIT\* margin in the future.

To achieve the strategic goals outlined above, EADS' management is relying on three principal growth and profitability drivers – internationalisation, innovation and improvement.

## Internationalisation

EADS has so far successfully built a European industrial group, with global export sales in excess of 60% outside Europe. While EADS has established a decisive and conclusive presence in non-European markets, it will continue its efforts to solidify its position as a global industrial group. These efforts are orchestrated at the Group level to allow for anticipation, cohesiveness and synergies between the Group's BUs.

In line with this approach, EADS is seeking to establish itself as a strong local player in key markets such as the U.S., China, Russia, South Korea and India. In these markets, EADS is seeking to construct an industrial footprint aimed

at establishing long-term market access, while benefiting from high market growth potential, technology potential and structural cost advantages, natural hedging and risk sharing opportunities. Overall, EADS will continue to evolve with the global industrial and commercial landscape focused not only on the above-mentioned key markets, but on other countries with significant potential such as Brazil, Turkey, Poland and Australia.

In the U.S., the goal is to firmly establish a presence as a valued corporate citizen in the world's largest Defence and Homeland Security market. EADS is in the midst of pursuing a four-pillar strategic approach: creating a U.S. industrial presence, developing transatlantic co-operations, acquiring small/mid-sized defence companies and cooperating with U.S. prime contractors. In 2005, several key agreements were reached in line with the Group's strategy: The Military Transport Aircraft Division (the "MTA Division" or "MTA") with Raytheon for the Future Cargo Aircraft campaign, Northrop Grumman for KC-30 Tanker (including the decision to build the final assembly line in Alabama) and Eurocopter with Sikorsky for the Light Utility Helicopter program.

China has been the pioneer country for the implementation of EADS' long-term industrial approach. Industrial cooperation has been progressively expanded over the past several years, highlighted in 2005 by the signing of key strategic agreements with Chinese partners. Specifically, Eurocopter signed an agreement with AVIC II to jointly develop and produce a new multipurpose helicopter. In addition, Airbus is proposing risk-sharing partnerships and a potential final assembly line for Airbus single-aisle aircraft in China is under evaluation. The Group is committed to long-term strategic partnerships in China, in order to sustain EADS' commercial aircraft leadership.

In South Korea, following a long competitive process, Eurocopter was selected to develop, in collaboration with KAI, a new military transport helicopter (8-ton). This project is expected to serve as a strong foundation for further expansion of EADS' position in South Korea.

India has already proven to be a growth market for commercial opportunities (e.g., 229 Airbus orders in 2005). The current challenge is to use these successes as a foundation for expansion of the defence business, which represents the largest share of potential growth on the Indian market.

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

As Russia's economy continues to develop in a promising direction, the Russian aerospace and defence industry is gaining new strength through restructuring and consolidation. Through its acquisition in 2005 of a 10% stake in Irkut, EADS is investing in a key player in the future industrial landscape in Russia.

#### Innovation

A continued focus on technological innovation is critical to EADS' strategy of reinforcing its role as a market leader in the future, offering a broad spectrum of ground-breaking solutions to its customers.

Compared to its peers, EADS has consistently devoted more resources to research and development ("R&D") (both in terms of absolute numbers and as a percentage of sales). In 2005, EADS self-financed €2.1 billion of R&D. Management believes that the Group's substantial R&D investment is paying off, both in terms of improvements in the Group's competitive position and the resulting return on investment.

EADS has established challenging targets for its technology innovation approach. The Group's systematic use of the latest digital design and engineering tools underlies its efforts to offer the capability of completing major platform developments in relatively short time frames. EADS intends to accelerate its review of core technologies and its processes for creating or compensating technology gaps vis-à-vis its competitors.

The Group also intends to focus on the screening of disruptive technologies and maintaining openness to outside ideas. EADS will therefore double the technological programs developed in cooperation with academic and industrial partners on an international basis.

In the defence business, the transformation processes of U.S. and European defence forces and public safety agencies as well as the need for a more efficient use of defence budgets have changed the customers' demands. Recognizing these changes, EADS intends to offer new solutions as lead system/capability integrator for defence and homeland security programs as C4ISR (command, control, communication, computers, surveillance and intelligence), Border security, Extended Air Defence, Unmanned Aerial Vehicles and Military Space.

In addition to systems innovation, innovative service solutions are also an important area of focus for the Group in its efforts to broaden programme leadership. EADS intends to further develop an outsourced service offering based on the successes of Paradigm and the prospects of the Future Strategic Tanker Aircraft ("FSTA").

#### Improvement

Transforming the Group's record backlog of more than €253 billion into benchmark profitability will depend on the Group's ability to improve operational performance, measured in terms of time, cost and quality, both within EADS and at its key suppliers.

Management has prioritised the successful implementation and execution of improvement plans and projects throughout the Group. Improvements in operational performance will require real-time visibility of the status of all operational parts and data flows with EADS and its key suppliers. These efforts will be supported by the integrated planning and execution of closed-loop collaborative processes and tools designed to support effective decision making and to enable the launch of early recovery actions.

#### Organisation of EADS Businesses

EADS principal businesses fall under five Divisions: (1) Airbus, (2) Military Transport Aircraft, (3) Eurocopter, (4) Defence and Security Systems and (5) Space. The chart set out in "— 3.3.6 Simplified Group Structure Chart" illustrates the allocation of activities among these five Divisions.

In June 2005, the former Aeronautics Division, which included the Eurocopter, ATR, EADS EFW, EADS Socata and EADS Sogerma Services BUs, was dissolved and a new Eurocopter Division was created. Following this change to EADS' organisational structure, EADS EFW and EADS Sogerma Services are under the direct responsibility of Gustav Humbert and ATR and EADS Socata are under the direct responsibility of Hans Peter Ring. In the adapted segment reporting, EADS allocates the four legacy Aeronautics BUs to "Other Businesses".



## Airbus

Airbus is one of the world's two leading suppliers of commercial aircraft of more than 100 seats. Since it was founded in 1970 up to the end of 2005, Airbus has received 6,307 orders for aircraft from 225 customers worldwide. Its market share of annual deliveries worldwide has grown from 15% in 1990 to 57% in 2005, surpassing its rival Boeing for the third time. At 31st December 2005, its backlog of orders (2,177 aircraft) stood at 80% of total EADS worldwide backlog. Gross order intake was 1,111 aircraft and after accounting for cancellations, net order intake for 2005 was 1,055 aircraft. In 2005, the Airbus Division of EADS earned revenues of €22.2 billion, representing 65% of EADS total revenues. See “— 1.1.2 Airbus”.

## Military Transport Aircraft

The MTA Division manufactures and sells light and medium military transport aircraft and is responsible for the development of the European heavy military transport A400M project. In addition, the MTA Division produces and sells mission aircraft, which are derived from existing platforms and dedicated to specialised military tasks such as maritime surveillance, antisubmarine warfare and in-flight refuelling capabilities. The MTA Division also designs and manufactures aerostructure elements. The MTA Division earned consolidated revenues of €763 million accounting for 2% of EADS' total revenues for 2005. The €19.7 billion contract to manufacture and deliver the A400M was signed in 2003, contributing to significant future revenue growth for EADS. See “— 1.1.3 Military Transport Aircraft”.

## Eurocopter

Eurocopter is one of the world's leading producers of helicopters and the leader in the European civil and military helicopter market. Management expects Eurocopter sales in the military market to increase substantially due to the commencement of delivery of the Tiger attack helicopter, the strong backlog of the NH90 military transport helicopter and the increasing demand in military and para-military export markets. In 2005, Eurocopter captured 52% of the worldwide market for civil helicopters and 18% of the worldwide market for military helicopters. The Eurocopter Division earned consolidated revenues of €3.2 billion representing 9% of EADS' total revenues for 2005. See “— 1.1.4 Eurocopter”.

## Defence and Security Systems

The Defence and Security Systems Division (the “**DS Division**”) is active in the field of integrated defence and security solutions including missile systems, combat aircraft, defence electronics, military communications and “homeland security”. Its customers are military forces and law enforcement agencies worldwide. In 2005, EADS' subsidiary MBDA maintained as the worldwide leader missile system manufacturer. Its Military Air Systems unit is a leading partner in the Eurofighter consortium and is also active in the UAV field. EADS is the third largest supplier of defence electronics in Europe and plays a significant role in the secure and encrypted military communications market. The DS Division is also increasingly active in the ‘homeland security’ market. On a consolidated basis, the DS Division earned revenues of €5.6 billion for 2005, representing 16% of EADS' total revenues. See “— 1.1.5 Defence and Security Systems”.

## Space

EADS is the third largest space systems manufacturing company in the world after Boeing and Lockheed Martin and the leading European supplier of satellites, orbital infrastructures and launchers. The Space Division designs, develops and manufactures satellites, orbital infrastructures and launchers largely through its subsidiaries EADS Astrium and EADS Space Transportation (“**EADS ST**”), and provides space services through its EADS Space Services subsidiary. The Space Division also provides launch services, through its shareholdings in Arianespace, Starsem and Eurockot, as well as services related to telecommunications and earth observation satellites, through dedicated companies, such as Paradigm. For 2005, the consolidated revenues of the EADS Space Division amounted to €2.7 billion, or 8% of EADS' total revenues. See “— 1.1.6 Space”.

## Investment

Among its significant investments, EADS holds a 46.3% stake in Dassault Aviation, a major participant in the world market for military jet aircraft and business jets. See “— 1.1.8 Investments”.

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

## Summary Financial and Operating Data

The following tables provide summary financial and operating data for EADS for the years ended 31st December 2005, 31st December 2004 and 31st December 2003.

### Consolidated Revenues for the years ended 31st December 2005, 2004 and 2003 by Division

	Year ended 31st December 2005		Year ended 31st December 2004		Year ended 31st December 2003	
	Amount in € bn	In percentage*	Amount in € bn	In percentage*	Amount in € bn	In percentage*
Airbus	22.2	64.3%	20.2	62.7%	19.0	63.1%
Military Transport Aircraft	0.8	2.2%	1.3	4.0%	0.9	3.1%
Eurocopter***	3.2	9.3%	2.8	8.6%	2.6	8.7%
Defence and Security Systems	5.6	16.4%	5.4	16.7%	5.2	17.1%
Space	2.7	7.8%	2.6	8.0%	2.4	8.0%
Total Divisional Revenues	34.5	100.0%	32.3	100.0%	30.2	100.0%
Other Businesses***	1.1		1.1		1.2	
Headquarters/Eliminations**	(1.4)		(1.6)		(1.3)	
<b>Total Consolidated Revenues</b>	<b>34.2</b>		<b>31.8</b>		<b>30.1</b>	

(\*) Percentage of total divisional revenues before headquarters / eliminations.

(\*\*) Includes inter-company eliminations and headquarters sales.

(\*\*\*) In 2005, the former Aeronautics Division was replaced by the Eurocopter Division. The consolidated revenues of the other BUs comprising the former Aeronautics Division are now reported in the line "Other Businesses".

### Consolidated Revenues by Geographical Area for the years ended 31st December 2005, 2004 and 2003

	Year ended 31st December 2005		Year ended 31st December 2004		Year ended 31st December 2003	
	Amount in € bn	In percentage*	Amount in € bn	In percentage*	Amount in € bn	In percentage*
Europe	13.6	39.7%	14.6	45.7%	14.0	46.4%
North America	9.0	26.4%	8.7	27.4%	8.0	26.7%
Asia/Pacific	7.7	22.6%	4.9	15.6%	4.0	13.4%
Rest of the World**	3.9	11.3%	3.6	11.3%	4.1	13.5%
<b>Total</b>	<b>34.2</b>	<b>100.0%</b>	<b>31.8</b>	<b>100.0%</b>	<b>30.1</b>	<b>100.0%</b>

(\*) Percentage of total revenues after eliminations.

(\*\*) Including the Middle East.



Consolidated Orders Booked for the years ended 31st December 2005, 2004 and 2003

	Year ended 31st December 2005		Year ended 31st December 2004		Year ended 31st December 2003	
	Amount in € bn	In percentage***	Amount in € bn	In percentage***	Amount in € bn	In percentage***
Orders booked:*						
Airbus**	78.3	84.5%	25.8	58.2%	39.9	53.1%
Military Transport Aircraft	1.8	2.0%	1.2	2.6%	20.3	27.0%
Eurocopter****	3.5	3.8%	3.2	7.3%	2.6	3.4%
Defence and Security Systems	6.7	7.2%	8.5	19.1%	6.3	8.4%
Space	2.3	2.5%	5.7	12.8%	6.1	8.1%
Total Divisional Orders	92.6	100.0%	44.4	100.0%	75.2	100.0%
Other Businesses****	1.9		1.1		1.2	
Headquarters / Eliminations**	(2)		(1.4)		(15.2)	
<b>Total</b>	<b>92.6</b>		<b>44.1</b>		<b>61.2</b>	

(\*) Without options.

(\*\*) Based on catalogue prices.

(\*\*\*) Before headquarters/eliminations.

(\*\*\*\*) In 2005, the former Aeronautics Division was replaced by the Eurocopter Division. The orders booked by the other BUs comprising the former Aeronautics Division are now reported in the line "Other Businesses".

Consolidated Backlog for the years ended 31st December 2005, 2004 and 2003 \*\*\*\*

	Year ended 31st December 2005		Year ended 31st December 2004		Year ended 31st December 2003	
	Amount in € bn	In percentage***	Amount in € bn	In percentage***	Amount in € bn	In percentage***
Backlog:*						
Airbus**	202.0	77.0%	136.0	70.3%	141.8	74%
Military Transport Aircraft	21.0	8.0%	19.9	10.3%	20.0	10%
Eurocopter*****	10.0	3.8%	9.1	4.7%	8.7	5%
Defence and Security Systems***	18.54	7.0%	17.3	8.9%	14.3	7%
Space	10.9	4.2%	11.3	5.8%	7.9	4%
Total Divisional Backlog***	262.34	100.0%	193.6	100.0%	192.7	100%
Other Businesses*****	2.1		1		1.1	
Headquarters / Eliminations	(11.2)		(10.4)		(14.5)	
<b>Total</b>	<b>253.2</b>		<b>184.3</b>		<b>179.3</b>	

(\*) Without options.

(\*\*) Based on catalogue prices or commercial aircraft activities.

(\*\*\*) Before headquarters / eliminations.

(\*\*\*\*) For a discussion on the calculation of backlog, see "Part 1/1.1.4.1 Order Backlog".

(\*\*\*\*\*) In 2005, the former Aeronautics Division was replaced by the Eurocopter Division. The backlog of the other BUs comprising the former Aeronautics Division is now reported in the line "Other Businesses".

## Relationship Between EADS N.V. and the Group

EADS N.V. itself does not engage in the core aerospace, defence or space business of its Group but coordinates related businesses, sets and controls objectives and approves

major decisions for its Group. As the parent company, EADS N.V. conducts activities which are essential to the Group activities and which are an integral part of the overall management of the Group. In particular, finance activities pursued by EADS N.V. are in support of the business activities and strategy of the Group. In connection therewith,

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

EADS N.V. provides or procures the provision of services to the subsidiaries of the Group. General management service agreements have been put in place with the subsidiaries and services are invoiced on a cost plus basis.

For management purposes, EADS N.V. acts through its Board of Directors, Executive Committee, and Chief Executive Officers in accordance with its corporate rules

and procedures detailed in “Part 1 / Chapter 2 — Corporate Governance”.

Within the framework defined by EADS, each Division, business unit (“BU”), and subsidiary is vested with full entrepreneurial responsibility.

To the best knowledge of Management, there are no pledges over any of the assets of EADS N.V.

## 1.1.2 Airbus

### Introduction and Overview

Airbus is one of the world’s two leading suppliers of commercial aircraft of more than 100 seats. Its market share of annual deliveries worldwide has grown from 15% in 1990 to 57% in 2005. At 31st December 2005, its backlog of orders (2,177 aircraft) stood at 80% of total EADS worldwide backlog. After accounting for cancellations, net order intake for 2005 was 1,055 aircraft. In 2005, the Airbus Division of EADS earned revenues of €22.2 billion, representing 65% of EADS total revenues.

Based on deliveries in 2005, Airbus was the largest supplier of commercial aircraft in the world, surpassing its rival Boeing for the third year. Since it was founded in 1970 up to the end of 31st December 2005, Airbus has received orders for 6,307 aircraft from approximately 225 customers around the world.

Several factors have contributed to the success of Airbus: its portfolio of modern aircraft, its consistent technological innovation, its stable pool of highly skilled employees and its concept of aircraft ‘families’ that offer customers cost savings in crew training, maintenance and supply for their fleets of different sized Airbus aircraft. In addition, Management strongly believes that the international composition of Airbus represents a competitive advantage in the global marketplace.

Airbus S.A.S. is jointly owned by EADS (80%) and BAE Systems (20%).

### Strategy

The paramount strategic goal of Airbus is to deliver first-rate economic returns in a sustainable manner by continuing to develop a superior family of products and commanding half of the world commercial aircraft market over the long-term. To achieve this end, Airbus is actively:

#### Completing the most comprehensive line of products targeted to customer needs

This entails (i) a major effort to deliver the first A380s to customers before the end of 2006, (ii) the gradual extension of relevant freighter applications across the range of Airbus aircraft, (iii) the continuous maintenance of existing models’ competitive edge in their respective markets, (iv) and the entry into the military business through new aircraft such as the A400M or the development of military derivatives products such as the Multi Role Tanker Aircraft (“MRTT”) based on the A330 airframe.

#### Focusing on key geographic markets

Airbus is seeking to penetrate certain key markets such as China and Russia, and to consolidate its position in the difficult U.S. airline market, where most of the carriers are facing financial difficulties.

#### Expanding its offering of services to customers

Expansion of its offering of customer services will enable Airbus to remain at the forefront of its industry by (i) designing answers to customers’ evolving needs, and

(ii) ensuring optimal Airbus placement along the industry's value chain.

### Perfecting its industrial operations

Management is focused on capturing the benefits of integration, to enhance its response to changes in volume and mix, and to carry out A380 related investments with a strong focus on flexibility and efficiency.

## Market

### Cyclical and Market Drivers

The main factors affecting the aircraft market include passenger demand for air travel, national and international regulation (and deregulation), and the rate of replacement and obsolescence of existing fleets. The performance, competitive posture and strategy of airlines, cargo operators and leasing companies, wars, political unrest and extraordinary events may act as a catalyst, precipitate changes in demand and lead to short term market imbalances.

The no-frills/low-cost carriers continue to emerge as a significant sector within domestic markets. They have developed in the U.S. and Europe by following a business model that leverages the benefits of minimising costs while stimulating demand by offering low fares to and from short and medium range, often under-served, destinations. In 2005, new low cost carriers have emerged in India and Latin America. The strong growth of Asian low cost carriers has been also confirmed. This business model, which proved to be particularly successful in the U.S. following market deregulation, is now being adopted by a growing number of airlines in Europe and Asia, resulting in increased demand and increasing market share for low-cost carriers. Airbus' family of modern single aisle aircraft based on the A320 is well positioned to provide the operating cost base and flexibility demanded by this segment of the market. Airbus already has a strong presence in the U.S. no-frills/low-cost market with JetBlue, America West and Frontier, and has also been successful in penetrating airlines in the growing low cost sector in Latin America with Volaris and TACA and in Asia, with sales and commitments from Cebu Pacific, Air Deccan, Indigo and Air Asia, for example.

*Overall Growth.* The market for passenger jetliners depends primarily on the demand for air travel, which is itself

primarily driven by economic or gross domestic product ("GDP") growth, fare levels and demographic growth. Measured in revenue passenger kilometres, air travel increased every year from 1967 to 2000, except for 1991 due to the Gulf War, resulting in an average annual growth rate of 7.9% for the period. In 2004, Airbus projected that air travel would grow at 5.3% per annum during the period 2004-2023.

*Cyclical.* Although those in the industry feel that long-term growth in air travel is secure, the market for aircraft has proven to be cyclical, due to the volatility of airline profitability and cycles of the world economy. When cyclical downturns have occurred in the past, aircraft manufacturers have typically experienced decreases in aircraft orders and lower deliveries followed by a period of sustained order and delivery activity. 2005 has been a record year in terms of orders for civil aircraft, whereas the last record year was 2000.

*Regulation / Deregulation.* National and international regulation (and deregulation) of international air services and major domestic air travel markets affect demand for passenger jetliners. In 1978, the United States undertook the deregulation of its domestic air transportation system. Other regions have followed this model, notably Europe since 1985.

The Federal Aviation Authority ("FAA") Stage 3 anti-noise regulations requiring operators to replace many older aircraft by the end of 1999 also had an impact on demand, resulting in a significant increase in North American orders in the years leading up to and following implementation of the regulations.

*Airline Network Development: Hubs.* As a consequence of deregulation policies, major airlines are constantly adapting their fleet, network and commercial strategies. This adaptation is possible because of the availability of new aircraft capable of meeting customer requirements in terms of cost and performance. In response to the price demands of passengers and competition of new no frills / low cost carriers, major airlines have organised their operations around strategically located "hub" airports enabling them to link more cities at lower fares. This affects demand as hubs permit fleet standardisation around both smaller aircraft types for the short, thin and high frequency routes feeding the hubs (between hubs and spokes) and larger aircraft for longer and higher density routes between hubs (hub-to-hub). As a result, worldwide deregulation has contributed

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

to the diversification of airline strategies, which in itself has resulted in airlines requiring a wider range of aircraft to implement such strategies.

*Fragmentation.* The term “fragmentation” describes markets in which point-to-point services replace or take a share of traditional hub and spoke/connection traffic. Fragmentation of this type has primarily occurred on short and medium range domestic U.S. routes, in response to competition and as a means for airlines to differentiate their services from one another.

The trend towards fragmentation on long and very long haul routes, driven by the development of new routes between secondary cities, will be facilitated by the availability of more modern, efficient aircraft. In the trans-atlantic market, the development of new non-stop services between secondary cities is expected to drive demand for intermediate wide body aircraft such as the A330 or the A350. Airbus believes that it is, with its complete family of products from the 107-seat A318 to the 555-seat A380, well-positioned to meet future market requirements.

*Alliances.* The development of world airline alliances is reinforcing these strategies. According to data from Airclaims, a U.K.-based aviation industry consultancy, half of the world’s jetliner fleet of over 100 seats was operated by 35 airlines as of December 2005. In the 1990s, the major airlines began to enter into alliances that give each alliance member access to the other alliance members’ hubs and routings, allowing airlines to concentrate their hub investments while extending their product offering.

*Governmental Funding.* A 1992 bilateral agreement between the E.U. and the U.S. provided for ceilings on reimbursable launch investments (typically used by European governments) of 33% of the total development costs of new large civil aircraft programmes. It also set a ceiling at 3% of industry revenues for indirect support in relation to the development or production of large civil aircraft (typically the Department of Defence and National Aeronautics and Space Administration (“NASA”) mechanisms used in the U.S.). This bilateral agreement had provided a level playing field for government support, reflecting the needs of both Europe and the U.S.

The unilateral withdrawal from the 1992 agreement by the U.S. government in late 2004 eventually led to formal claims and counterclaims being made by the U.S. and the E.U. respectively with the World Trade Organisation. The E.U.

and the U.S. have also entered into negotiations to seek a resolution to the issues being disputed in the formal World Trade Organisation (“WTO”) process, with the goal of agreeing a new system that provides for a level playing field when funding future aircraft developments.

### Market Structure and Competition

*Market Segments.* Currently, Airbus competes in each of the three principal market segments. “Single aisle” aircraft, such as the A320 Family, have 100-210 seats in two rows divided by one aisle and are used principally for short-range and medium-range routes. “Twin aisle” or “wide body” aircraft, such as the A300/A310 and A330/A340 Families, have a wider fuselage with more than 210 seats in three rows divided by two aisles. Both the A300/A310 and A330/A340 Families are used on short-range and medium-range routes, with the A330/A340 Family being capable of ultra-long range operations. “Very large aircraft”, such as the A380 Family, are designed to carry more than 400 passengers non-stop over very long-range routes with superior comfort standards and with significant cost-per-seat benefits to airlines. Freight aircraft, which form a fourth, related segment, are often converted ex-passenger aircraft. See “— 1.1.7 Other Businesses — Aircraft Conversion and Floor Panels”. In addition, the A300-600 has been a successful all-new freight aircraft (A300-600F) with increasing popularity among major express courier providers and airlines, such as Federal Express, UPS and Air Hong Kong. Nevertheless, Airbus announced in March 2006 that the last A300-600 will be delivered in July 2007, after 35 years of commercialisation and production of the A300 aircraft. Airbus also competes in the corporate, VIP business jet market with the ACJ an A319-based Corporate Jetliner, which has proved popular as a corporate shuttle and in government/VIP roles.

According to a study conducted by Airbus, a total of 11,850 aircraft with more than 100 seats were in service during December 2005 (as compared to 10,800 aircraft at the end of 2004).

The high proportion of single aisle aircraft in both North America and Europe reflects the predominance of domestic short-range and medium-range flights, particularly in North America due to the development of hubs following deregulation. In comparison with North America and

Europe, the Asia-Pacific region uses a greater proportion of twin aisle aircraft, as populations tend to be more concentrated in fewer large urban centres than in the U.S. This distinction is compounded by the fact that many of the region’s major airports limit the number of flights either due to environmental concerns or to infrastructure constraints limiting the ability to further increase flight frequency. These constraints necessitate higher average aircraft seating capacity per flight.

*Competition.* Airbus has been operating in a duopoly since Lockheed’s withdrawal from the market in 1986 and Boeing’s acquisition of McDonnell Douglas in 1997. As a result, the market for passenger aircraft of more than 100 seats is now effectively divided between Airbus and Boeing. According to manufacturers’ published figures, in 2005 Airbus and Boeing, respectively, accounted for 57% and 43% of total deliveries, 52% and 48% of total gross orders, and 53% and 47% of the total year-end backlog.

The significant barriers to entry into the market for passenger aircraft of more than 100 seats make it unlikely that a newcomer will be able to compete effectively with either of the established suppliers in the foreseeable future.

## Customers

As of 31st December 2005, Airbus had approximately 225 customers, 4,130 Airbus aircraft had been delivered to operators worldwide since the creation of Airbus, and 2,177 aircraft were on order. The table below shows Airbus’ most significant gross firm orders, by number of aircraft, for the year 2005.

Customer	Firm Orders*
CASC (China)	150
Indigo	100
Aercap	70
Air Asia	60
GECAS	40
Air Deccan	30
Kingfisher	30

(\*) Options are not included in orders booked or year-end backlog.

## Organisation of Airbus

### Integration of the Airbus Activities

EADS has an 80% interest in Airbus S.A.S., and has effective management control over its operations, while BAE Systems, holding the remaining 20%, enjoys specific minority rights. Certain strategic decisions, such as acquisitions and divestitures valued at more than U.S.\$500 million, approval of the three-year Business Plan (but not the annual budgets or the launch of new programmes) as well as certain actions which would dilute the ownership interest of BAE Systems in Airbus S.A.S., require unanimous agreement.

Following the integration of Airbus in 2001, the shareholders of Airbus agreed to grant BAE Systems an option to sell its Airbus S.A.S. shares at market value to EADS, either for cash consideration or in exchange for EADS shares, as determined by EADS. However, BAE Systems may elect to receive cash where the issue of EADS shares would require prior burdensome regulatory authorisations impacting significantly the allocation of the EADS shares. EADS benefits from a call option at market value on the Airbus S.A.S. shares in case of a change of control of BAE Systems in certain circumstances. Likewise, under certain circumstances, BAE Systems can require EADS to purchase its Airbus S.A.S. shares at market value in the event of a change in control of BAE Systems or EADS.

Beginning with the 2003 financial year, BAE Systems became entitled to receive enhanced dividends, subject to deliveries of A340-500/600 aircraft exceeding an agreed target rate. The enhanced dividends, which are indexed to Airbus’ future growth, could represent a non-indexed value from zero up to a cap of €237.5 million (based on current economic conditions) over the following ten years.

Shareholder and strategic matters relating to Airbus S.A.S. are decided by a shareholders’ committee, to which EADS has appointed five members and BAE Systems two members. Mr. Noël Forgeard, Chief Executive Officer of EADS, is the chairman of the Shareholders’ Committee. Mr. Gustav Humbert, as President and Chief Executive Officer of Airbus S.A.S., is responsible for the operational management of the Airbus business, together with the Executive Committee, consisting of himself and up to ten other members, two of whom are members proposed by BAE Systems, all of whom are agreed upon by the President



## Information on EADS Activities

### 1.1 Presentation of the EADS Group

and Chief Executive Officer of Airbus S.A.S. and appointed by the Shareholders' Committee.

As a consequence of its majority interest in Airbus S.A.S. and of the control provided by the shareholders' agreement related to Airbus S.A.S., EADS consolidates 100% of the integrated Group in its financial statements as from 1st January 2001.

## Products and Services

### Technological Breakthroughs

Technological innovation has been at the core of Airbus' strategy since its creation. Many of the innovations that provided a distinct competitive advantage have subsequently become standard in the aircraft industry.

*A300* — The A300 was the world's first twin-engine twin aisle commercial aircraft. This feature gave it a distinctive advantage in terms of fuel burn and maintenance costs over its three-engine and four-engine competitors for the short and medium range. The A300 B4, a derivative of the original A300, was the first twin aisle commercial aircraft certified for a two-member flight crew, resulting in lower operational costs as compared to three-member crew operated aircraft which was the industry standard at the time.

*A310* — The A310, brought to the market in 1983, featured the first digitally imaged cockpit displays, using cathode ray tubes as opposed to the traditional mechanical display. This made it possible to provide the pilot with improved flight and navigation displays and unique centralised, easy access aircraft monitoring. The implementation of automated systems and the integration of Digital Flight Guidance both helped to further improve safety levels.

New efficient aerodynamic concepts were also introduced, such as a supercritical airfoil and the high aspect-ratio transonic wing, which brought a significant improvement in fuel burn. Carbon fibre reinforced composite materials were introduced for major structures such as the vertical fin and rudder, with significant weight savings as compared to aluminium, resulting in increased payload capability. The installation of a trim tank in the horizontal stabiliser increased operators' savings significantly by optimising aircraft attitude during the flight.

*A320* — Airbus was the first to introduce digital fly-by-wire controls with the A320 in 1988, introducing pilot commands

through a side stick controller instead of the traditional control column. Flight-control computers translate these commands into electrical signals for the moving surface actuators and, at the same time, can prevent the aircraft going beyond the prescribed safe flight envelope. Compared to the traditional mechanical flight controls, this brought increased manoeuvrability, simplified operations through digital link-up with the autopilot system and weight reduction. The fly-by-wire concept is now featured on all A320 Family aircraft as well as the A330/A340 Family. Airbus' U.S. competitors did not introduce fly-by-wire controls for civil aircraft until later. Composite materials have been extended in the A320 to the horizontal tail plane.

*A330/A340* — Four models of this twin aisle family feature wing commonality for two and four-engine variants of an otherwise similar airframe — a unique concept that permits each model to be optimised around different market requirements. The ultra-long-range A340-500/-600 feature a larger wing and introduce further breakthroughs in the use of weight saving composite materials for a large primary structure (the 15m-long keel beam and rear cabin pressure bulkhead).

*A350* — The 'sister ship' of the A380, the A350 is Airbus' response to perceived customer demand. The A350, which is in the early stages of development, will exploit technologies developed and studied for the A380. Available in two versions, the A350 will have 90% new part numbers, a new landing gear, a cockpit derived from the A380 and a number of other innovations including the extensive use of composites and aluminum-lithium (including, for example, a composite wing), raising the use of new light weight materials to 60%. Nevertheless, the A350 will retain full operational commonality with the rest of the Airbus aircraft family. The A350 is intended to offer more seats, more range, a lower fuel burn per seat and a lower cash operating cost per seat than the competition.

*A380* — The very large aircraft will bring further development of advanced technologies and allow for their broader application. Approximately 25% of the aircraft structure is to be manufactured using carbon composites and advanced metallic hybrid materials, while innovative manufacturing techniques such as laser beam welding will eliminate fasteners, reduce weight and provide enhanced fatigue tolerance.

## The Family Concept – Commonality across the Fleet

Airbus' four aircraft families promote fleet commonality. This philosophy takes a central aircraft and tailors it to create derivatives to meet the needs of specific market segments. This approach means that all new-generation Airbus aircraft (i.e., excluding A300/310) share the same cockpit design, fly-by-wire controls and handling characteristics. Pilots can transfer among any aircraft within the Airbus family with minimal additional training. Cross-crew qualification ("CCQ") across families of aircraft provides airlines with significant operational flexibility.

This commonality philosophy to reduce development costs also permits aircraft operators to realise significant cost savings in crew training, spare parts, maintenance and aircraft scheduling.

The extent of cockpit commonality within and across families of aircraft is a unique feature of Airbus that, in Management's opinion, constitutes a sustainable competitive advantage.

*Short- and medium-range single aisle aircraft: the A320 Family.* Airbus' family of single aisle aircraft, based on the A320 (which entered service in 1988 following a development programme launched in 1984), includes the A318, A319 and A321 derivatives, as well as the A319-based Airbus Corporate Jetliner, a business jet derivative, which Airbus launched in June 1997.

At 3.96 metres diameter, the A320 Family has the widest fuselage cross-section of any competing single aisle aircraft. This provides a roomy passenger cabin, a high comfort level and a more capacious underfloor cargo volume than its competitors. The A320 Family incorporates digital fly-by-wire controls, an ergonomic cockpit and a lightweight carbon fibre composite horizontal stabiliser, derived from the A310-300. The use of composite has also been extended to the vertical stabiliser. The A320 Family's competitors are the Boeing 737, 757 and 717 aircraft.

**The A318.** The A318 aircraft is a shortened version of the A319, designed to satisfy demand for aircraft in the 100 to 120-seat range.

### Single Aisle Technical Features

Model	Entry into service	Passenger capacity*	Maximum range (km)	Length (meters)	Wingspan (meters)
A318	2003	107	6,000	31.4	34.1
A319	1996	124	6,800	33.8	34.1
A320	1988	150	5,700	37.6	34.1
A321	1994	185	5,600	44.5	34.1

(\*) Two-class layout.

In 2005, Airbus received 918 orders for A318, A319, A320 and A321 aircraft and delivered 289 A320 Family aircraft.

*Short- and medium-range twin aisle aircraft: the A300 / A310.* The A300 / A310 aircraft were the initial models of the Airbus product line and are designed for short-and-medium range routes. The A300, which entered into service in 1974, was the world's first twin aisle, twin-engine aircraft. Its current version A300-600 is also available in freighter and convertible passenger-freighter configurations, in service with both Federal Express and UPS.

In 1988, Airbus introduced the extended-range A300-600R, which incorporated the lightweight carbon fibre composite horizontal stabiliser developed for the A310. The A310, which was based on the A300, entered into service in 1983, and introduced the first electronic cockpit in civil aviation history.

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

#### A300/A310 Technical Features

Model*	Entry into service	Passenger Capacity**	Maximum range (km)	Length (meters)	Wingspan (meters)
A300	1974	266	7,500	54.1	44.8
A310	1983***	220	9,600	46.7	43.9

(\*) All versions of A300/A310 including freighters.

(\*\*) Two-class layout.

(\*\*\*) Airbus has announced in March 2006 that the last A300-600 will be delivered in July 2007.

In 2004, Airbus received two orders for A300 and A310 aircraft and delivered 12 A300 and A310 aircraft.

*Medium to ultra-long-range twin aisle aircraft: the A330 / A340 Family.* Airbus developed the twin-engine A330 and long-range four-engine A340 as a joint programme, using the same wing design for both aircraft and retaining the fuselage cross section of the existing A300/A310 to offer comprehensive and economic medium to ultra-long-range route coverage.

The competitors of this family are the Boeing 767, 777 and 747 aircraft.

#### A330/A340 Technical Features

Model*	Entry into service	Passenger capacity*	Maximum range (km)	Length (meters)	Wingspan (meters)
A330-200	1998	253	12,500	59.0	60.3
A330-300	1994	295	10,500	63.7	60.3
A340-200	1993	240	14,800	59.4	60.3
A340-300	1992	295	13,700	63.7	60.3
A340-500	2002	313	16,700	67.8	63.6
A340-600	2002	380	14,600	75.3	63.6

(\*) Three-class layout.

In 2005, Airbus received 79 orders for A330 and A340 aircraft and delivered 80 A330 and A340 aircraft.

*Very large aircraft: the A380 Family.* In 2004, Airbus estimated worldwide passenger traffic would grow at a sustained average annual rate of 5% during the 2004-2022 period, leading to two concurrent trends: rising fragmentation of a portion of the marketplace, characterised by the development of new markets, higher frequency on thinner routes and hub by-passing; and consolidation of the rest of the market, resulting in the concentration of the hub-to-hub traffic and hub-dominated traffic, typical of alliance networks. See “— Market”. Following five years of intensive pre-development with airlines, airports and regulatory authorities throughout the world, Airbus has defined a

In 1997, Airbus began development of the ultra-long-range A340-500 and the high capacity A340-600 derivatives. The A340-500 is intended to offer more point-to-point routings over extremely long ranges. It is designed to allow non-stop flights such as Los Angeles — Singapore or Chicago — Auckland. The A340-600 made its first flight in April 2001 and deliveries began in July 2002.

very large aircraft, the A380, to best serve the needs of the consolidated hub-dominated market.

2005 was a significant year from an industrial and programme point of view with the ‘reveal’ of the A380, and the first flight on 27th April 2005.

At year-end 2005, Airbus had received a total of 159 firm orders for the A380 from leading world airlines.

The cost of developing the A380 programme, initially projected at U.S.\$10.7 billion, covers both R&D expenses and tooling for various versions of the A380. This estimate does not include certain infrastructure elements or general and administrative expenses.



Management presently intends to finance the programme by:

- Maximising contributions from risk-sharing partners, who have been found for up to U.S.\$3.1 billion of non-recurring costs; and
- Applying reimbursable launch investments from governments in compliance with the 1992 U.S.-Europe bilateral agreement and all other applicable regulations, estimated by Management at about U.S.\$2.5 billion under current assumptions; France, Great Britain and Spain have already committed, and Germany has agreed in principle, to such investments. See “— Market — Cyclical and Market Drivers — Governmental Funding”.

When deciding to launch the programme, Management set itself a 20% pre-tax internal rate of return target, together with a project break-even point of approximately 250 aircraft. It is satisfied that the terms and conditions presently agreed with its customers corroborate the business case.

Final assembly of the A380 takes place in Toulouse, while interior furnishing and customisation will be performed in Hamburg. The fuselage sections are being produced at the same sites in France and Germany as current Airbus aircraft. The wings are being produced at facilities in the U.K., while the horizontal stabiliser and other parts are being produced in Spain.

### New Product Development: A400M

Airbus' Military Programme Directorate, headed by Mr. Juan Carlos Martinez Saiz, performs research and development related to the A400M project as an outsource provider to Airbus Military S.L. The Military Transport Aircraft A400M is described in “— 1.1.3 Military Transport Aircraft — Products — Military Transport Aircraft / Special Mission Aircraft on Transport Aircraft Platforms — Airbus A400M”.

### Asset Management

The Airbus Asset Management Division was set up in 1994 to manage and re-market used aircraft acquired by Airbus, originally as a result of customer bankruptcies, and subsequently in the context of certain buy-back commitments. The Division operates with a dedicated staff and manages a fleet comprised of Airbus aircraft across the range of models. Through its activities, the Asset Management Division helps Airbus respond more efficiently

to the medium and long-term fleet requirements of its customers.

Its key roles comprise the commercial and risk management of the Airbus portfolio of used aircraft. Most of the aircraft are available to customers for cash sale, while some can only be offered on operating lease, depending on the financing attached to such aircraft. At the end of 2005 the Airbus Asset Management portfolio contained 31 aircraft, a net reduction of 16 aircraft compared to the end of 2004. The Asset Management Division also provides a full range of support services, including assistance with entry into service, interior reconfiguration and maintenance checks.

### Sales Finance

Airbus favors cash sales, and does not envisage sales financing as an area of business development. However, Airbus recognizes the commercial need for manufacturers to assist customers in arranging financing of new aircraft purchases, and in certain cases to participate in such financing itself. Extension of credit or assumption of exposure is subject to corporate oversight and monitoring, and follows stringent standards of discipline and caution. Airbus' dedicated Sales Finance team has accumulated decades of expertise in aircraft finance. When Airbus finances a customer, the financed aircraft generally serve as collateral, with the engine manufacture participating in the financing. These elements assist in reducing the risk borne by Airbus. Airbus' sales financing transactions are designed to facilitate subsequent sell-down of the exposure to the financial markets, third party lenders or lessors. Airbus' financing exposure is counter-cyclical and currently Airbus is able to conclude significant sell-down of its exposure. Management believes, in light of its experience, that the level of provisioning protecting Airbus from default costs is adequate and consistent with standards and practice in the aircraft financing industry. See “Part 1 / 1.1.7.4 Sales Financing”.

### Customer Service

Airbus is dedicated to assisting customers with the operation of their Airbus fleets as efficiently as possible. With respect to aircraft operation, the Airbus Customer Services directorate heads an engineering and technical support group, a technical documentation organisation, a network of training

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

centres, spare parts stores and teams based at customer airlines. Through this single interface, Airbus aims to satisfy all of its customers' pre-delivery and in-service support requirements, including (1) engineering and technical support, (2) training and flight operations support and (3) material support.

Engineering and technical support provides Airbus operators with technical assistance on a 24-hour basis to ensure safe and reliable operations of their Airbus fleet. Customised cost reduction programmes are designed to reduce customers' maintenance costs to optimised levels.

The training and flight operations support service includes a permanent staff of over 200 instructors around the world to provide accessible and up-to-date training for Airbus flight and ground crews. Airbus has four training centres, one in Toulouse, France, one in Hamburg, Germany, one in Miami, U.S. and one in Beijing, China. A co-operation agreement with Canadian Aviation Electronics Ltd ("CAE") has enlarged this network by 13 additional training locations world-wide. As part of its training services, Airbus offers Cross Crew Qualification programmes enabling pilots to take advantage of the high degree of commonality between Airbus aircraft families, representing considerable savings to airlines.

Airbus' spares support centres stock over 120,000 different part numbers, serving a worldwide distribution network from Hamburg, Frankfurt, Washington, D.C., Singapore and China. The 24-hour aircraft-on-ground service usually dispatches in-stock items within two hours of receipt of an order. A range of modular spares services is offered to the airlines to help them reduce costs by identifying and eliminating deficiencies in the supply chain.

## Production

### Industrial Organisation

Airbus aircraft are produced using an efficient and flexible system that has optimised the specialised skills developed during the last three decades. Each task in the building of the Airbus aircraft (from design, definition and production to product or operational support) is allocated to industrial sites according to their specialised expertise. The nurturing and development of centres of excellence, although a legacy

of the past, constitutes an original and competitive feature of Airbus manufacturing.

### Engineering

Airbus engineers work on specific and non-specific aircraft designs to create solutions that ensure the company remains a market leader. Using an innovative working practice, known as Airbus Concurrent Engineering ("ACE"), teams are able to work together effectively in real time, regardless of geographical location.

Engineering innovation at Airbus is driven by five Centres of Competence ("CoCs"), which develop general aircraft technologies and provide functional design leadership for specific aircraft components. The CoCs operate trans-nationally with engineers from each CoC present at all Airbus sites.

Airbus engineers have also developed "Colleges of Experts" — teams of the most experienced specialists in each discipline that provide guidance and advice at senior levels. This approach not only delivers design solutions to meet the highest standards of technical quality and performance, but also ensures that both individual and collective knowledge is nurtured throughout the CoCs.

The engineering teams are supported by system tests and integration laboratories, structural test centres and the Airbus flight test centre.

This approach has enabled Airbus to open engineering centres in Wichita (Kansas), U.S., in Moscow, Russia, and in Beijing, China, through which it has gained access to a large pool of experienced aerospace engineers. The Wichita engineering centre began operations in early 2001 and has already made a significant contribution to Airbus wing design. The engineering centre in Russia, organised as a joint venture with Kaskol, was inaugurated at the end of 2002 and the engineering centre in China was inaugurated in late 2005. A fourth engineering centre is expected to open in Mobile (Alabama), U.S. in 2006.

### Manufacturing Facilities and Production Flow

Airbus has established highly specialised centres of excellence ("CoE") based on the core competencies of each site within its field of expertise. The CoEs are responsible

for the design, procurement and manufacturing of fully equipped and tested deliverables, ranging from specific parts to major aircraft components.

The eight CoEs are (1) CoE Nose and Centre Fuselage at Toulouse, St. Nazaire, Nantes and Meaulte (France); (2) CoE Forward and Aft Fuselage at Hamburg, Nordenham, Bremen and Varel (Germany); (3) CoE Pylon and Nacelle at Toulouse-St. Eloi (France); (4) CoE Vertical Tailplane (VTP) at Stade (Germany); (5) CoE Cabin and Cargo Customisation at Hamburg, Bremen, Buxtehude and Laupheim (Germany) and Toulouse (France); (6) CoE Horizontal Tailplane and Belly Fairing (and certain sections of the A380) in Getafe, Illescas and Puerto Real (Spain); (7) CoE Electrics in Filton (U.K.), Hamburg (Germany) and Toulouse (France); and (8) CoE Wing in Broughton and Filton (U.K.), with a satellite design office in Wichita, Kansas (U.S.).

The CoEs deliver their specific components to one of the two Airbus final assembly line sites. Toulouse is responsible for the final assembly of the A300/A310 Family, A320, A330/A340 Family and A380 Family, while Hamburg is responsible for the final assembly of the A318, A319 and A321, as well as for the major component assembly and interior furnishing for the A380 customization.

Aircraft components are transferred between the network of CoE sites and the final assembly lines using Airbus' five custom built A300-600 "Beluga" Super Transporters. To support the A380 production flow, Airbus has integrated road, river and sea transport, including the specially

commissioned "Ville de Bordeaux" ship. Typical production lead times for single-aisle aircraft are 8-9 months, and 12-15 months for long-range twin-aisle aircraft.

### Adaptability to Changes in Demand

Airbus delivered 378 aircraft in 2005 (compared to 320 in 2004) and expects to deliver more than 400 aircraft in 2006. Any major market disruption or economic downturn could lead to revision of these figures.

To meet its 2006 delivery target, Airbus has set various elements of its adaptable manufacturing process in motion; these include enhanced integrated intelligence of customer and market situation to provide early anticipation, repatriation of an array of outsourced tasks and adaptation of make or buy criteria. Additionally, Airbus is exploiting flexibility features of its labour structure by applying flexible time and overtime contractual provisions, and by optimising temporary and time-defined workforce. This allows Airbus to increase adaptability without paring the experienced and trained workforce which Management considers a most valuable Airbus asset to sustain long-term growth.

Airbus' unique manufacturing flexibility is imbedded within the organisation, implementing lessons learned from previous downturn.

## 1.1.3 Military Transport Aircraft

### Introduction and Overview

The Military Transport Aircraft Division (the "MTA Division") develops, manufactures and sells light and medium military transport aircraft and is responsible for the European heavy military transport A400M project. Additionally, the MTA Division produces and sells special mission aircraft, which are derived from existing aircraft

platforms and are dedicated to specialised military tasks such as maritime surveillance, antisubmarine warfare and in-flight refuelling capabilities. The MTA Division also designs and manufactures aerostructure elements.

The MTA Division earned consolidated revenues of €763 million, accounting for 2% of EADS' total consolidated revenues for 2005.

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

## Strategy

The MTA Division's strategic goals are to develop its core businesses, to leverage the EADS pool of technologies to gain share within its markets and to enhance profitability. To achieve these goals, the MTA Division has implemented a focused, two-pronged strategy to:

### **Consolidate its leadership position and address the growing demand for modern tactical military transport aircraft**

EADS is the global leader in the market segments for light and medium-sized military transport aircraft. Through the addition of the A400M heavy transport aircraft, EADS expects to broaden its range of tactical military transport aircraft and to capture a market with high replacement potential that Lockheed Martin has historically dominated.

### **Optimise EADS' capabilities to become a major supplier of military derivatives**

The MTA Division relies on its own specialised technologies as well as those of the DS Division and on EADS' wide range of platforms to promote aircraft satisfying customers' mission-specific requirements.

## Market

### **Military Transport Aircraft**

Governments and multinational organisations constitute the MTA Division's principal customers in the market for tactical military transport aircraft. This market consists of three segments: (1) light transport aircraft, with a payload of one to four tons, (2) medium transport aircraft with a payload of five to 14 tons; and (3) heavy transport aircraft with a payload of 15 tons or more. According to a study by the Teal Group, an independent aerospace and defence industry consulting firm, the global market for military transport aircraft for the next ten years will amount to an estimated U.S. \$46 billion.

*Light Military Transport* - This is a mature market that has diminished in size as countries develop economically and are able to afford medium military transport aircraft. The CASA C-212 has historically led this market segment, with an

average market share of 15% over the last ten years.

The C-212's main competitors are manufactured by Polskie Zakłady Lotnicze, Mielec, Socata and HAL.

*Medium Military Transport* - Management believes that this market will continue to experience moderate growth. EADS models are prominent in this market segment, with the CN-235 and C-295 models having an average market share of 45% over the last ten years, followed by their competitors, the C-27J produced by Lockheed Martin Alenia Tactical Transport System ("LMATTS"), a joint venture of Alenia and Lockheed, and the An-32 produced by Antonov.

*Heavy Military Transport* - This market segment has historically been driven by U.S. policy and budget decisions and hence has been dominated by U.S. manufacturers and in particular, Lockheed Martin's C-130 Hercules. While the U.S. is reducing and upgrading its existing fleet, European transport fleet replacement and growth needs represent an opportunity for the new A400M aircraft to effectively compete in this market.

EADS has chosen thus far not to compete in the separate market segment for super-heavy, strategic airlift aircraft, to which the Boeing C-17 belongs.

### **Special Mission Aircraft**

Special mission aircraft are derived from existing platforms and adapted to particular missions, generally for military customers. According to a study by Forecast International, the market for military derivatives for the next ten years will amount to an estimated U.S. \$42 billion. It is a market of advanced technology and high added value solutions where customers are increasingly demanding comprehensive systems tailored to their respective operational requirements. Modern defence and warfare increasingly require independent access to complex forms of information in various theatres of operations. This development and Europe's unsatisfied defence needs are expected to boost demand for European-produced mission aircraft in the near term. The MTA Division is well-positioned in this market, as it has access, through Airbus, to efficient platforms that are already well-established in the civil market. However, U.S. companies currently dominate this market.

Because of the limited size of any single European market and the significant associated development costs, mission aircraft



programmes in Europe tend to be funded and developed on a multinational basis, with an emphasis on proven technologies. EADS believes its strong position in Europe will allow it to exploit opportunities on a worldwide basis.

## Products

### Military Transport Aircraft/Special Mission Aircraft on Transport Aircraft Platforms

*C-212 - Light Military Transport.* The C-212 was conceived as a simple and reliable unpressurised aircraft able to operate from makeshift airstrips and carry out both civilian and military tasks. The first model in the series, the S-100, entered into service in 1974. With a payload of 2,950 kg, the new version of the C-212, the Series 400, entered into service in 1997. It incorporates improvements such as new avionics and engines for enhanced performance in hot climates and high altitudes, as well as improved short take-off and landing (“STOL”) performance. The C-212’s rear cargo door provides direct access for vehicles, cargo and troops. Its configuration can be changed quickly and easily, reducing turnaround times. The aircraft can perform airdrops and other aerial delivery missions.

*CN-235 - Medium Military Transport.* The first model in the CN-235 family, the S-10, entered into service in 1987. The latest model in the CN-235 family, the Series 300, entered into service in 1998 and is a new-generation, twin turboprop, pressurised aircraft. The CN-235-300 is capable of transporting a payload of up to 6,000 kg, representing (1) 48 paratroopers; (2) 21 stretchers plus four medical attendants; (3) four of the most widely used type of freight pallet; or (4) oversized loads such as aircraft engines or helicopter blades. Paratroop operations can be performed through the two lateral doors in the rear of the aircraft or over the rear ramp. Variants of the CN-235-300 are used for other missions, including maritime patrol, electronic warfare and photogrammetric (mapping) operations. One CN-235 was delivered (to Ecuador) in 2005.

*C-295 - Medium Military Transport.* Certified in 1999, the C-295 has the basic configuration of the CN-235, with a stretched cabin to airlift a 50% heavier payload at greater speed over similar distances. The C-295 is equipped with integrated avionics incorporating digital cockpit displays and flight management system, enabling tactical navigation,

planning and the integration of signals from several sensors. Both the CN-235 and C-295 have been designed as complements to or replacements for ageing C-130 Hercules, accomplishing most of their missions at a lower operating cost; specialising the C-130 for heavier cargo transport only extends its service life.

Ten C-295s were delivered (six to Algeria, three to Poland and one to Spain) during 2005. On 29th April 2005, the MTA Division announced a €258 million contract with Brazil for the delivery of 12 C-295 aircraft to replace the ageing C-115 Buffalo. These aircraft are intended to enable the Brazilian Air Force to support activities related with the Amazon Protection System (SIVAM) and the Calha Norte Project, fundamentally social activities, to support people in remote areas of the Amazon with difficult access to other means of transportation. In addition, a contract for the delivery of one C-295 aircraft was signed in 2005 with the Spanish Ministry of Defence (“MoD”).

*Future Cargo Aircraft (“FCA”).* During 2005, EADS CASA North America and Raytheon established a partnership to bid for the U.S. Army’s FCA programme. Under the FCA programme, the U.S. Army plans to procure more than 100 FCA, with an initial phase of 33 aircraft. The contract is expected to be awarded in 2007.

As of 31st December 2004, 774 medium and light military transport aircraft had been ordered by 121 operators in 55 countries.

*Maritime Patrol Aircraft.* The MTA Division provides different solutions ranging from Maritime Surveillance to Anti-Submarine Warfare through aircraft based on the C-212, CN-235, C-295 or P-3 Orion platforms, for which EADS has already developed a new-generation, open architecture mission system called FITS (Fully Integrated Tactical System), a proven, reliable and cost efficient solution.

The contract signed in February 2004 with Lockheed Martin in the Deepwater Programme for the U.S. Coast Guard remains on schedule and the first delivery is planned during 2006.

On 29th April 2005, a contract for the modernisation of the fleet of eight P-3 Orion was also signed between Brazilian Government and EADS-CASA. Brazil has purchased the mission system FITS (Fully Integrated Tactical System) for the modernisation of its P3-Orion that would be performed

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

by EADS-CASA in collaboration with local Brazilian partners.

After the initial agreement in December 2004, a formal contract with SASEMAR, a parapublic agency, was officially signed in April 2005 for the purchase of three CN-235 maritime patrol aircraft for sea rescue and pollution control missions. Delivery of the first aircraft is planned for 2007.

During 2005, the MTA Division delivered two C-212 aircraft with mission systems to Mexico and one CN-235 maritime patrol aircraft to Ecuador.

*Airbus A400M.* The A400M is designed to meet the Future Large Aircraft requirements set out by seven European nations to replace their ageing C-130 Hercules and C-160 Transall fleets. In addition to fast and flexible intercontinental force projection, the new aircraft is intended to respond to changing geopolitical requirements (including increased humanitarian and peacekeeping missions).

The A400M will integrate a number of features from existing Airbus aircraft, including a two-person cockpit, fly-by-wire controls and advanced avionics. Additionally, the A400M will benefit from Airbus' maintenance procedures and worldwide customer support network.

Airbus Military is a Spanish *sociedad limitada* dedicated to the development, manufacture and delivery of the A400M aircraft. Shares in Airbus Military are currently held by Airbus S.A.S (69.44%), EADS CASA (20.56%), Tusas Aerospace Industries Incorporated of Turkey (5.56%) and Flabel Corporation NVSA of Belgium (4.44%). The Executive Vice President in charge of the MTA Division also acts as Chief Executive Officer of Airbus Military, bringing the MTA Division's experience in the management of military transport aircraft programmes and its extensive client network to the A400M programme.

Airbus Military has subcontracted to Airbus the overall management of the A400M development, to be exercised through a central programme management office ("CPMO") headquartered in Toulouse with additional offices in Madrid. For the production phase of the A400M programme, to be managed by the MTA Division, the CPMO will be headquartered in Spain.

In May 2003, the *Organisation Conjointe en Matière d'Armement* ("OCCAR") signed a contract with Airbus

Military to order 180 A400M aircraft, mandated by seven nations: Belgium committed to eight aircraft (including one on behalf of Luxembourg), France to 50, Germany to 60, Spain to 27, Turkey to ten, and the U.K. to 25.

Management believes that the A400M programme will allow EADS to leverage its state-of-the-art commercial aircraft technology to access a new and attractive market, while mitigating the impact of civil aircraft market commercial cycles.

During 2005, an important internal milestone was passed successfully. The overall programme's development remains on schedule and the completion of the final assembly line for the A400M in Seville is expected to be reached in the first half of 2007.

Efforts to win export contracts for the A400M yielded several successes during 2005. After the signature of a declaration of intent with the South African government in December 2004, the contract was officially signed in April 2005. The total maximum value of the contract for eight aircraft as well as options is €836 million. On 8th December 2005, the Malaysian government signed a contract for the purchase of four A400M.

In addition to the initial 180 aircraft, these export orders bring the total order book for the A400M aircraft to 192.

### Special Mission Aircraft on Airbus Platforms

The MTA Division offers special mission aircraft derived from existing Airbus platforms and adapted to particular missions, generally for military customers. Adaptations to the platform require thorough knowledge of the basic airframe, which generally only the aircraft manufacturer possesses. The skills necessary for overall systems integration into such aircraft are extensive and the number of participants on the world market is very limited.

*Strategic Tanker Aircraft.* EADS seeks to provide a competitive alternative to the near-monopoly currently enjoyed by Boeing products in the market for strategic tanker aircraft. This should help to ensure Europe's ability to set up projects independently. In light of the estimated worldwide market of approximately 550 tanker aircraft, Management believes that strategic tanker aircraft offer an attractive opportunity for EADS.

The MTA Division leads a technological programme developing a new “air-to-air” refuelling boom system (“**ARBS**”) that is designed to ensure a refuelling performance two to four times faster than that of the competition - a considerable advantage as aircraft are very vulnerable during the refuelling procedure. The refuelling boom was installed on the test rig in November 2004 and on 23rd December 2005, the roll-out of an A310 demo boom took place at the Getafe facilities. Flight tests with this A310 demo boom were to be realised during the first quarter 2006.

*A330 MRTT (Royal Australian Air Force)* - The contract signed on 20th December 2004, with the Royal Australian Air Force for the delivery of five A330 multi-role tanker transports (“**MRTT**”) equipped with ARBS to replace its existing Boeing 707 fleet remains on schedule. Delivery of the first A330 MRTT to Australia - based on the A330 derivative, a low-risk and cost-effective platform that offers a greater supply capacity than other competing solutions- is scheduled for 2008, with entry into service planned for 2009.

*A330 Future Strategic Tanker Aircraft (FSTA) (United Kingdom Royal Air Force)* - EADS, Rolls Royce, Cobham, VT and Thales are cooperating through the AirTanker consortium as the single bidder for the U.K. MoD’s Future Strategic Tanker Aircraft (“**FSTA**”) programme. Likely to be structured as a Private Finance Initiative, this programme would replace ageing VC10 and Tristar tankers, currently operated by the Royal Air Force, with a system based on the long-range family of Airbus aircraft. The programme will provide for the delivery of 14 aircraft to render the air refuelling service for 27 years. The MTA Division’s participation in the programme will amount to approximately €2 billion.

*KC-30 Tanker Programme (U.S. Air Force)* - Management views the KC-30 programme for the replacement of the ageing U.S. fleet of strategic tanker aircraft as a market opportunity. A capture team has been established to act on the KC-30 advance tanker campaign for the U.S. Air Force next generation air-to-air refuelling

aircraft. EADS has joined with Northrop Grumman (as prime contractor) on the KC-30 advance tanker bid.

*A310 MRTT (German Air Force / Canadian Air Force)* - In its entirety, the programme involves four aircraft for the German Air Force and two aircraft for the Canadian Air Force. In 2005 two A310 MRTT were delivered, the second one to the German and also the second one to the Canadian Air Force.

*Alliance Ground Surveillance (“AGS”)*. Within the framework of NATO, several countries have expressed interest in the development of an Airborne Surveillance System. MTA’s role in this programme is to perform the “militarization” of the A-321 platform, with the DS Division acting as the prime contractor.

## Aerostructures

EADS-CASA has longstanding tradition of expertise in the utilisation of composite materials for aerostructure manufacturing and advanced automation processes.

Based on its expertise, the MTA Division is actively involved in the design, manufacture and certification of complex aeronautical structures. During 2005, the MTA Division delivered, among other structures, fan cowls for the A340 and the first fan cowls for the A380.

## Production

The C-212, CN-235 and the C-295 are manufactured in the factory located within the San Pablo Airport in Seville. Aerostructures are produced in Cádiz and at the Tablada facilities as well as San Pablo plant; both in Seville.

#### 1.1.4 Eurocopter

##### Introduction and Overview

Through Eurocopter, EADS is one of the global leaders in the worldwide civil and military helicopter market. Management expects Eurocopter sales in the military market to increase substantially due to the start of delivery of the Tiger attack helicopter, the strong backlog for the NH90 military transport helicopter with a number of European governments and the increasing demand in international military and para-military export markets. In 2005, Eurocopter maintained its leadership by capturing more than 50% of the civil market in terms of deliveries and by achieving a strong growth in its military order book.

For 2005, the Eurocopter Division earned consolidated revenues of €3.2 billion, representing 9% of EADS' total revenues.

##### Strategy

The Eurocopter Division aims to further develop businesses and markets identified by Management as having the potential for continued growth. To this end, Eurocopter is actively:

##### Fostering internal growth and international expansion

Management intends to further develop Eurocopter's presence in emerging markets such as China, India and Eastern Europe and to bolster its position in traditionally inaccessible markets such as the South Korean, U.S. and U.K. military markets. To do so, Eurocopter will continue to capitalize on its proven experience of cooperation with local industries for program development and joint production projects. This approach has enabled Eurocopter to build solid foundations in rapidly growing markets. Eurocopter will also continue to pursue its industrial deployment strategy in the United States, where it already has two industrial and services facilities. In support of Eurocopter's international expansion, more than 20% of its employees work outside of the Division's home countries of France, Germany and Spain.

##### Implementing an intensive product and services policy designed to maintain its market leadership and technological superiority

The continuous renewal of Eurocopter's comprehensive product line of civil and military helicopters is essential in maintaining the Division's market leadership and technological superiority. Management intends to continue this process by (i) strengthening the market position of certain key products such as the Écureuil, the Dauphin, the EC 135 and the EC 145, (ii) emphasising Eurocopter's most recent products (e.g., entry into service and customization for export of the Tiger and NH90) and (iii) enhancing its product line (e.g., co-development of the medium lift EC175 with China; partnership with Korean industry to develop the military utility Korean Helicopter Industry ("KHP")). Eurocopter's comprehensive product line allows it to leverage core technological solutions with its high-value customization capabilities, in order to respond to the cost-driven mission needs of a wide array of civil and military customers throughout the segmented helicopter market.

One of Eurocopter's key competitive advantages is its technological excellence. To maintain its position as a technological leader, Eurocopter promotes technology initiatives, such as the Heavy Transport Helicopter and drones, and research programmes emphasizing technologies that enhance the operational scope of its aircraft. Eurocopter is currently focused on innovation in fields such as environmental-friendliness, all-weather flying ability and economic affordability throughout an aircraft's lifecycle.

Because customer service is an important component of customer satisfaction and source of revenue for the Division, Eurocopter remains committed to strengthening and expanding its network of marketing, distribution and support systems, through its 'global offer' proposal. The network currently serves approximately 9,500 Eurocopter aircraft with 2,500 operators located in 139 countries.



## Market

In 2005, the value of helicopters delivered worldwide was estimated at over €7 billion; a figure Management expects may grow to €11 billion by 2010. According to market forecasts by The Teal Group, Honeywell and Rolls Royce, between 5,200 to 5,800 civil helicopters and 5,500 to 6,000 military helicopters are expected to be built globally from 2006 to 2015. This forecast, particularly with respect to the military segment, depends to a large extent on the future of large U.S. development programmes.

Military demand for new helicopters is principally driven by budgetary and strategic considerations, and the need to replace ageing fleets. Management believes that the advanced age of current fleets, the emergence of a new generation of helicopters equipped with integrated systems and the ongoing introduction of combat helicopters into many national armed forces will contribute to increased military helicopter procurement over the next several years. Recent large-scale military programmes, such as those conducted by Australia, Brazil, Spain and the Nordics Standard Helicopter Project have confirmed this trend. Demand from the military segment has historically been subject to large year-to-year variations, due to evolving strategic considerations.

Military helicopters, which are usually larger and have more sophisticated systems than commercial helicopters, accounted for 43% of the total value of Eurocopter deliveries in 2005.

The military segment is highly competitive and is characterised by competitive restrictions on foreign manufacturers' access to the domestic defence bidding process, sometimes to the virtual exclusion of imports. Consequently, Eurocopter's past share of the global market for military helicopters has been comparatively small. EADS aims to increase this share in the future with the

introduction of the Tiger and NH90 and with a more aggressive approach to international industrial cooperation.

In the military segment, Eurocopter's main competitors are AgustaWestland in Europe, and Bell Helicopter, Boeing and Sikorsky in the United States. Additionally, the Russian manufacturers and a number of U.S. and European domestic manufacturers compete in these markets.

The helicopters sold in the civil sector provide transport for corporate executives, offshore oil operations, diverse commercial applications and state agencies, including coast guard, police, medical and fire-fighting services. Management expects that the value of global civil deliveries will grow at an average rate of 3% in the next ten years. Market data indicates that in 2005, worldwide deliveries of civil turbine helicopters stood at approximately 580 units.

Eurocopter's main worldwide civil competitor is Bell Helicopter, a division of Textron Inc. of the United States. The civil helicopter market is relatively concentrated, with Eurocopter and Bell Helicopter accounting for approximately 75% of total civil helicopter sales in 2004.

## Products and Services

*Existing Products.* Management believes that Eurocopter currently offers the most complete and modern range of helicopters, covering more than 85% of the overall civil and military market spectrum. Eurocopter's product range includes light single-engine, light twin-engine, medium and medium-heavy helicopters, and is based on a series of new-generation platforms designed to be adaptable to both military and civil applications. The product line is continuously updated with leading-edge technologies, assuring its modernity. The following table illustrates Eurocopter's existing product line:

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

Helicopter Type	Typical Uses	Entry into Service
<b>Light Single Engine</b>		
EC120	Corporate / Private	1998
<b>Single Engine</b>		
AS350	Utility, Law Enforcement, Corporate / Private	1975
EC130	Shuttle, Tourism, Offshore, Corporate / Private	2001
<b>Light Twin Engine</b>		
AS355N	Parapublic*, Utility, Corporate / Private	1988
EC135 / EC635	Emergency Medical, Parapublic*	1996/2003
EC145	Emergency Medical, Parapublic*, Shuttle	2002
<b>Medium</b>		
Dauphin	Offshore, Parapublic*	1977
EC155	Corporate / Private, Offshore, Parapublic*, Shuttle	1999
<b>Medium Heavy</b>		
Super Puma / Cougar	Offshore, Shuttle	1980
MK II	Offshore, Shuttle	1993
EC225	Offshore, VIP	2004

(\*) Parapublic includes law enforcement, fire fighting, border patrol, coast guard and public agency emergency medical services.

*The Tiger.* The Tiger combat attack helicopter programme development is nearing completion. It includes four variants based on the same airframe: the 40 HAP (turreted gun, rockets and air-to-air missile) for France; the 80 UHT (antitank missile, air-to-air missile, axial gun and rockets) for Germany; the 22 ARH (antitank missile, turreted gun and rockets) for Australia; and the 24 HAD for Spain and 40 HAD for France (antitank missile, air-to-air missile, turreted gun, rockets and upgraded avionics and engines). The manufacturing ramp-up of the programme is reflected by the delivery of 13 Tigers as of February 2006 (five to the German Army, four to the French Army and four to Australia). The new Spanish Tiger version HAD programme, boasting a fully multi-mission version of the Tiger, was initiated after the signing of a contract in November 2005 for 24 aircraft.

*Civil range.* In recent years Eurocopter has invested in the renewal of its civil product line to enhance its competitive position in the civil segment, with the result that its share of the world market currently stands above 50%. Eurocopter has successfully introduced into the international market such new products as the light single-engine EC120 and the light twin-engine EC135, and such major product upgrades as the EC155, the latest evolution of the medium-class Dauphin,

and the EC145, a derivative of the BK117. Deliveries of the EC130, the latest single-engine member of the Écureuil family, started in 2001.

*EC225.* The latest edition to the heavy-class family is the EC225. It is designed for passenger transport, in particular offshore and VIP, but also for public service missions, such as search and rescue (SAR). More than 30 orders for the EC225 and its military variant, the EC725, have been booked to date. In September 2005, European Aviation Safety Agency (EASA) awarded the EC225 helicopter an airworthiness certificate for unrestricted operations in icy conditions.

*Products in Development.* Current product development projects in the military segment include (1) the NH90, a military transport helicopter with different versions for tactical, naval and combat-search and rescue applications, and (2) the HAD version of the Tiger helicopter. Moreover, Management intends to commence new product development programmes in the near future in cooperation with Asian partners.

*NH90.* The NH90 was developed as a multi-role helicopter for both tactical transport and naval applications. The project, principally financed by the governments of France, Germany, Italy and the Netherlands, was jointly developed

by Eurocopter, AgustaWestland of Italy and Fokker Services of the Netherlands as joint partners in Nato Helicopter Industries (“NHI”) in direct proportion to their countries’ expressed procurement commitments. Eurocopter’s share of NHI is 62.5%. Production of the first lot of 243 helicopters and 55 optional helicopters to be delivered to the four partner countries started in 2000, with first deliveries expected in 2006. The NH90 high cabin version manufactured for the Swedish armed forces performed its maiden flight in 2005.

Designed for modern multi-mission capabilities and cost effectiveness throughout its lifecycle, the NH90 has rapidly become the reference military tactical helicopter for armed forces worldwide, selected by 18 services in 14 countries. In 2001, Portugal booked 10 NH90 helicopters; Finland, Sweden and Norway jointly ordered the NH90 (52 firm orders and 17 options); Greece ordered 20 aircraft in 2003, plus 14 options; in 2004, Oman ordered 20 NH90 TTH’s and Australia ordered 12 NH90’s (AIR 9000). Additionally, in the last twelve months, Spain, New Zealand and Belgium also selected the NH90 as their preferred helicopter for their upcoming acquisition programs. The NH90 has been selected by 11 countries and its backlog totals 357 firm orders and 120 options. The announced selections add 73 helicopters to the existing backlog.

*Tiger HAD (Hélicoptère Appui Destruction).* The HAD version of the Tiger is a multi-role combat helicopter. It is based on the Tiger HAP and incorporates a more powerful engine, an IFF interrogation function, a new ballistic protection and an air-to-ground missile (AGM) capability. The HAD is expected to be qualified in 2010, with deliveries between 2010 and 2014.

*EC175.* Eurocopter and Chinese AVIC II Corporation launched the joint development and production of the EC175, a civil helicopter in the 6-ton category, which will broaden both partner’s product ranges. The 5-year development phase will begin in early 2006. The new civil helicopter is due to make its first flight in 2009, with European and Chinese certification set for 2011, the year in which production is due to begin. Production will be shared on a 50/50 basis and each country will have its own assembly line. Sales forecasts for this latest-generation helicopter call for 800 units to be sold worldwide over the next 20 years.

*KHP.* The Korean government chose Eurocopter as the primary partner of Korea Aerospace Industries (“KAI”) in the new KHP programme for the development of Korea’s first military transport helicopter in the 8 metric ton class. The 6-year KHP development phase will run from 2006 to 2011. In the following 10-year production phase, 245 helicopters are to be manufactured. As the primary partner of KAI, Eurocopter has a stake of 30% in the development phase and 20% in the production phase. This programme is groundbreaking for Eurocopter in a previously American-dominated Korean market. Eurocopter and KAI have agreed to establish a 50/50 subsidiary to market the export version of the KHP, which has a forecasted worldwide demand of 250 helicopters over 20 years.

## Customer Support

As of 31st December 2005, Eurocopter products constituted the world’s second largest manufacturer fleet, with 9,460 helicopters in service worldwide. As a result, customer support activities to service this large fleet generated 31% of Eurocopter’s revenues for 2005. Eurocopter’s customer support activities consist primarily of training, maintenance, repairs and spare parts supply. To provide efficient worldwide service, Eurocopter has established an international network of subsidiaries, authorised distributors and service centres. Furthermore, in order to meet globalizing customer demand, Eurocopter is dynamically extending the range of services it provides to its customers. For example, Eurocopter and Thales established HELISIM, a helicopter-training centre, which opened in 2002. In 2004, a consortium consisting of Eurocopter, CAE, Rheinmetall Defence Electronics and Thales was awarded the contract for the Helicopter Flight Training Services (HFTS), the first Private Finance Initiative (PFI) project to design, build and operate three NH90 training centres in Germany. The Eurocopter Training Academy will be officially established in 2006.

## Customers and Marketing

Eurocopter’s principal military clients are European MoDs, as well as MoDs in Asia and the Middle East. Eurocopter’s penetration of the civil and parapublic market is globally well-distributed, and its penetration of the civil and

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

parapublic market in Europe, the United States and Canada places it first among manufacturers in these markets.

Eurocopter's global strategy is reflected in the scale of its large international network. Eurocopter's network currently encompasses 16 foreign subsidiaries, complemented by a network of authorised distributors and service centres aimed at a large number of existing and potential clients.

Additionally, Eurocopter has developed expertise in production licensing, joint production and subcontracting agreements, and has been developing links with industrial partners and suppliers in more than 35 countries.

Approximately 2,500 operators worldwide currently operate Eurocopter helicopters, forming a broad established base for Eurocopter's customer support activities. Eighty-five percent of Eurocopter's customers have fleets of between one and four helicopters.

The versatility and reliability of Eurocopter products have made them the preferred choice of the most prominent customers. The U.S. Coast Guard operates 95 Dolphin (Dauphin) helicopters and the world's largest offshore operators (Bristow, CHC, Era and PHI) use Eurocopter helicopters for passenger transport and offshore oil industry

support. In the Emergency Medical Service market segment, Eurocopter helicopters dominate the fleets of large operators such as Air Methods in the U.S. and ADAC in Germany. Agencies with high serviceability requirements, including police and armed forces, rely on Eurocopter products.

### Production

Eurocopter's manufacturing and development activities are carried out primarily in four locations, two in France and two in Germany. The French sites are located in Marignane, in southern France, and La Courneuve, near Paris. The German sites are located in Donauwörth and Ottobrunn, near Munich. With the ramping up of the Spanish HAD helicopter assembly line in Eurocopter's new Albacete plant, Spain is becoming the third industrial pillar of the Eurocopter Group.

The opening of an AS350 final assembly plant in Mississippi (targeting the U.S. parapublic sector) and of a Tiger final assembly line in Australia (relating to a specific Australian version under the AIR 87 programme) are further indications of Eurocopter's truly global presence and strategy of being close to its customers.

## 1.1.5 Defence & Security Systems

### Introduction and Overview

The Defence & Security Systems Division ("DS" or the "DS Division") was created in 2003 to serve as the main pillar of EADS' defence and security activities. By combining EADS' Missile Systems (EADS' share in MBDA), Defence and Communications Systems (DCS), Defence Electronics (DE), Military Air Systems (MAS) (and EADS' share of the Eurofighter programme), as well as services activities within one division, EADS has focused its defence business to better meet the needs of customers requiring integrated defence and security solutions.

In its second full year of operation, the DS Division succeeded in expanding its cash flow and maintaining its EBIT\* level over €200 million, mostly due to higher revenues driven by Eurofighter deliveries and MBDA programmes

while investing significantly further in UAV programmes, further streamlining businesses and improving capabilities in Large Systems Integration ("LSI"). An additional external growth potential will be achieved through acquisitions in the naval and professional mobile radio businesses. DS' portfolio of innovative products and integrated solutions that cover electronics, missiles, platforms, systems and services, is designed to meet growing and changing requirements for all military and security needs. DS intends to continue the process of strengthening its LSI role in EADS' Systems and Solutions provider concept by increasing its focus on core businesses and fostering further efficiencies and adaptations. Through these measures, the DS Division expects to contribute to EADS' overall objective of raising the percentage of revenues derived from defence from 25% to 30% over the next five years.



## System Design Centre (SDC)

The System Design Centre supports defence and security customers in Concept Development and Experimentation (CD&E) with Modelling and Simulation (M&S) in a synthetic environment, providing system architecture design framework and relevant competencies to the DS BUs and the overall EADS Group. The SDC is installed in France, Germany and the U.K. and provides a transnational networked experimentation and test environment through its Network Centric Operations Simulations Centres (NetCOS). By applying standardised methods and tools, the DS Division's LSI strategy is put on a solid and interoperable basis.

On a consolidated basis, the DS Division generated revenues of €5.6 billion for 2005, representing 16% of EADS' total revenues.

## 2005 Highlights for the DS Division

Several factors contributed to DS' progress in 2005. Transatlantic programmes such as MEADS and NATO AGS received contracts, while the Eurofighter programme continued delivery of Tranche 1 to partner nations. Successes in Missiles Systems include MBDA's contract awards for Exocet and Aster, as well as deliveries of Storm Shadow, and the commencement of series delivery for LFK of the Taurus missile systems to the German Bundeswehr. Taurus also received its first export contract from Spain. In the U.K., the Atlas consortium, which includes the DS Division as a tier one member, won the contract for the U.K. MoD's defence information infrastructure (DII). The DS Division expanded its presence in the areas of naval business with the acquisition (subject to closing) of Atlas Elektronik - together with ThyssenKrupp Technologies - and the professional mobile radio (PMR) business with the purchase of Nokia's PMR business. In Missile Systems, the DS Division took decisive steps in integrating LFK into MBDA.

## Strategy

With its new, integrated structure, the DS Division presents a more harmonised approach to its customers in answering to the trend towards capabilities-based procurement, while at the same time creating internal synergies and savings.

The DS Division is also moving beyond defence to security and has recognised that its customers increasingly require full-service packages and integrated solutions to support this transformation process. Another aim for the DS Division is to sustain growth by focusing on further cooperation with home market customers while fostering and developing transatlantic partnerships. A clear goal remains to increase global reach in developing markets, including Central and Eastern Europe, India, Asia and the South Pacific, and South Africa.

## Streamlining and focusing the DS Division

The organisational structures of Defence and Communications Systems and Defence Electronics have been streamlined and Military Air Systems (which has been operating under the new name since January 2006) has considerably expanded its portfolio in 2005 while receiving an optimised structure to reap the growing demand for UAVs. Centralisation of marketing and sales activities will create one face to the customer and harmonize DS Division offerings, while at the same time creating a footprint and global communities in key export markets, thereby enhancing its focus on customer needs. Moving the System Design Centre to DS Division level makes it more visible and accessible to BUs and the EADS Group. Focusing on people development, improvement of project risk management and streamlining its processes will ensure that the new organisation runs efficiently. Additionally, each BU will lead operative parts of the Services business, which will strengthen the capacities for future cooperative models with the customers.

## Supporting the transformation process

Through already existing programmes with the NATO Supreme Allied Command Transformation, the French Defence Ministry, the U.K.'s NITeworks and Germany's national integrated test bed (NITB), DS is actively promoting European and NATO transformation. DS is supporting its customers in assessing and evolving their security needs by supplying simulation systems such as NetCOS in three out of the four home countries and with plans to expand to the U.S. DS also participates in the Network Centric Operations Industry Consortium (NCOIC), an industry-based collaborative forum, formed in order to recommend an architectural approach that system and platform developers

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

may follow to facilitate their participation in a global network environment. The focus for the future will be to continue to work closely with industry and customer working groups to help define, influence and, most importantly, deliver system solutions geared towards an intensified transformation process.

#### Moving beyond defence into security

As an enabler for the organisations countering asymmetrical threats, DS' Large Systems Integration approach is the paradigm for the realisation of global security solutions. Seeking to maximise efficiencies through the optimal use of data and information together and across the relevant security organisations, DS is adapting its expertise in defence to the fast-growing markets of global security (estimated at €35 billion globally per year), multiplying the number of revenue and profit opportunities. Best practice examples include border surveillance in Romania and a contract to provide a nationwide Trans European Trunk Radio ("TETRA") radio network for Hungarian authorities.

#### Strengthening the DS Division's position in home markets and the U.S.

DS is continuing to focus on its customer orientation in the U.K., France, Spain, and Germany. Within these respective markets, further efforts in the core businesses will remain a strategic goal towards profitable growth in defence. In particular, EADS seeks to raise its visibility in the U.K. and capitalise on the opportunities that the U.K. market provides. The DS Division aims to become a market leader through projects emphasising LSI solutions such as U.K.'s defence information infrastructure (DII) programme, and ground based air defence (Land Environment Air Picture Provision - LEAPP). DS recently established a NetCOS centre in the U.K. with others already existing in France and Germany. In France, further inroads have also been made in the area of UAV technology partnerships and command & control systems. As an important partner in the Eurofighter consortium through EADS CASA, Spain continues to be a significant market for profitable growth, which DS is focused on developing. Involvement in the NEURON demonstrator is also coordinated through MAS Spain.

Penetration of the U.S. defence market remains a key objective for the DS Division, which seeks to expand its

current U.S. industrial presence in defence electronics and test & services. EADS North America Defence Company ("NA DefCo") is part of the overall strategy to increase business with the U.S. Department of Defence and the U.S. industrial primes. NA DefCo is, however, an independent entity and remains outside of the DS organisation. Methods for expanding into the United States include:

- pursuing specific market segments where the DS Division can offer superior products and technologies, such as the Hellas obstacle avoidance system for helicopters and the TRS-3D radar for the U.S. Coastguard;
- building strong transatlantic industrial partnerships with U.S. prime contractors, including Northrop Grumman (U.S. Tanker programme, NATO AGS, Ballistic Missile Defence, EuroHawk®), Lockheed Martin (MEADS, Deepwater, Littoral Combat Ship, COBRA, Ballistic Missile Defence) and Raytheon (Ballistic Missile Defence) to explore new opportunities driven by military transformation; and
- seeking acquisitions and new partnerships to enhance the DS Division's U.S. operational footprint across several market sectors, including platform systems, operational support and defence electronics.

#### Defence and Communications Systems (DCS)

Defence and Communications Systems ("DCS") is the EADS "Systems House". The mission of DCS is to create complete communication and information system solutions and the means to implement them. DCS offers to its customers comprehensive and tailored solutions, combining the know-how to design, develop and implement LSI (Large Systems Integrations), and link the widest possible range of individual platforms and subsystems into a single effective network.

Information and secured communication system solutions in global security as well as systems enabling for effective border control and coastal surveillance constitute another major focus for DCS. System integration is becoming increasingly important in these areas.

Through the acquisition (subject to closing) of Atlas Elektronik in Bremen together with ThyssenKrupp Technologies, DCS will pool its competencies in naval

sensors, electronics and combat management systems, thus creating a strong maritime electronics and systems company.

In 2005, DCS generated 19% of DS's total revenues.

## Markets

DCS faces competition from large U.S. and European companies that also specialise in DCS markets. Major competitors are Lockheed Martin, Thales, Motorola and SAIC. Key customers for DCS' business include mainly governmental customers, such as MoDs, ministries of interior in the home markets France, Germany and the U.K. with an increasing focus on other European countries and Asia.

## Products

*Mission Systems & Solutions ("MSS")*. DCS offers comprehensive military mission capabilities in the area of airspace dominance, battlespace systems, intelligence solutions and naval systems as well as an overall systems support. It acts as a prime for full systems design architecture and systems integration responsibility for military land-, sea-, air- and space-based systems. MSS delivers airspace dominance systems for defensive, offensive and support operations in a combined, joint environment, thus realizing flexible, network enabled capabilities.

In the area of battle management solutions for army and joint forces, MSS provides complete solutions offering a continuous chain of command from the highest level of command to the forces on the ground. The portfolio allows to take mutual advantage from a variety of interdependent elements: multi data source fusion systems, multi mission ground stations, command control (C3I) systems for the strategic, operative and tactical level, military communication networks and intelligence systems. MSS is a major designer and supplier of C3I systems to the armed forces in France and Germany, and the Joint Staffs in France, Germany and NATO.

MSS systems support enables customers to maintain and operate their EADS provided systems over the service life of these systems.

Major contracts signed include the installation of a land-based maritime traffic surveillance and coastal protection system in Portugal and a contract for the development of

the French C3I system SIR. In the Asia Pacific a contract with the Vietnamese Ministry of Natural Resources and the Environment for an integrated surveillance system for the Vietnamese Centre for Remote Sensing was signed.

*Information Infrastructure Solutions (IIS)*. DCS provides solutions, interfaces and gateways necessary to use Open Architectures that improve interconnection and interoperability. Key competencies are information infrastructure security, network infrastructure interoperability, information management, satellite based broad band solutions, information infrastructure integration, integrated logistics support, interoperability and spectrum dominance.

IIS is focusing on the information infrastructure through systems and services by integrating relevant C4I-Systems on all types of platforms in order to network all players in the battle space. IIS is responsible for designing and implementing infrastructure including all the services needed to support the Mission Systems & Solutions projects.

The Atlas consortium (in which Fujitsu is the prime contractor and EADS is a key member) won the contract for U.K.'s MoD defence information infrastructure (DII) project in 2005. The 10-year programme will provide 300,000 users with a single information network delivering a coherent integration of sensors, decision makers, weapon systems and support capabilities. IIS also won a contract award from NATO procurement agency to supply an Interim Forces Tracking System (IFTS), a secure system for locating Allied Forces in Kosovo and the Balkans.

*Global Security*. DCS provides fully integrated solutions and services in order to mitigate risk exposure in the areas of: border and maritime security, crisis management, large event protection and critical infrastructure. Taking into account the increased interconnection between different areas of threat and particularly in view of the growing interdependencies of internal and external security, the seamless collaboration of different security organisations is increasingly important. EADS seeks to maximise efficiencies through the optimized use of data and information together and across the relevant security organisations.

The contract between Romania and EADS, confirmed in 2005, provides for the delivery of an integrated system for surveillance and securing of the Romanian border. This will enable Romania to meet its increased security requirements

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

after its planned E.U. entry. The first phase of the project will be completed by the end of 2006, shortly before Romania officially joins the E.U., and completion of the overall project is targeted for December 2009.

*Secure Networks (“SN”).* DCS provides integrated security solutions for public safety, civil defence entities, transport and industries, using TETRAPOL, TETRA and P25 standard secure communication networks. SN has taken over Nokia’s PMR business in 2005 and is now a global leader in providing high level communications systems for law enforcement and civil safety organisations.

Major contracts recently signed are the delivery of the infrastructure for the Hungarian nationwide TETRA radio network (EDR), the TETRA solution to secure communications during 15th Asian Games in December 2006 in Qatar, the procurement contract to supply the German Armed Forces (Bundeswehr) with TETRAPOL technology and the contract with the French National Gendarmerie on modernisation of its “RUBIS” secure TETRAPOL radio communications network. Within the scope of the competitive tendering for the nationwide digital voice and data transmission network for German security authorities and organisations (“BOS”), EADS has submitted the most cost-effective bid according to the results of the first evaluation.

### Defence Electronics (DE)

As the Electronic Warfare, Avionics and Sensors House of EADS, DE provides mission-critical elements for data gathering, data processing and distribution, and self-defence. Its business is based on sensors and subsystems as a second-tier supplier and addresses the market for surveillance and reconnaissance, military mission management, platform self-protection, network-enabled capabilities and military forces support.

In 2005, the DE business generated 11% of DS’s total revenues.

### Markets

EADS’ main competitors in defence electronics are large and medium-sized U.S. and European companies (i.e., Raytheon, Northrop-Grumman, Thales, BAE Systems, Galileo Avionica, Indra and Saab) as well as competitors from

Israel. Following this year’s integration of Ewation GmbH into DE, growth in Electronic Warfare (EW) systems is a key strategic goal for DE. DE’s key customers include MoDs, interior ministries, military services, security forces, the in-house EADS systems suppliers and other LSI’s worldwide. Through various joint ventures, participations and cooperations, DE has access to MoDs of all NATO countries, particularly in Germany, France, the U.K., Spain and Italy. Export markets, especially in the Middle East and the Asia-Pacific region, also offer growth opportunities.

### Products

*Electronic Warfare and Self Defence.* DE supplies electronic self-protection systems for aircraft, ships and armoured vehicles, such as laser warning, missile warning and active electronic countermeasure units, including directed infrared countermeasures, self-protection jammers and towed decoys. In this field DE delivers core components to the “EuroDASS” defensive aids subsystem on Germany’s 180 Eurofighters and supplies additional avionics components to the wider Eurofighter programme. It has subsystem responsibility for the A400M’s self-protection system, also supplying core EW equipment such as the Infrared missile warning system MIRAS contracted in 2005. For military mission aircraft, helicopters (NH90, Tiger) and VIP aircraft, DE is particularly developing solutions to counter threats from infrared-guided missiles. To date, DE has sold approximately 5,000 units of its missile warning sensor (MILDS), which is deployed on a variety of helicopters and transport aircraft. Based on MILDS, DE has developed the version MILDS F to meet specific requirements for the Royal Danish Navy’s F-16 fighter aircraft. DE also offers self-defence equipment for ships and armoured vehicles.

*Avionics.* As a major partner in the field of military mission avionics for the A400M, DE assumes the subsystem responsibility for mission management and defensive aids. The DE portfolio also comprises avionics equipment, such as digital map units (EuroGrid), flight data recording units and obstacle warning systems for helicopters. Additionally, DE is developing multi-sensor integration and data fusion technology, which is a key future technology for network-enabled capabilities. For example, DE is in charge of sensor fusion software on the NATO AWACS E3A and the Australian “Wedgetail” programmes and was awarded a contract in 2004 to develop a Multi-Sensor Tracking system



for the Finnish Air Force. Additional products offered by DE in the field of communication and identification include wide-band modular data links and MIDS (multi-function information distribution system), both core elements of network-centric operations.

*Sensors.* DE is a principal partner for airborne multi-mode radars such as the Captor radar in the Eurofighter programme, combined with integrated logistics support, maintenance and upgrades. DE is also heavily involved in the technology development and application of next-generation active phased array radars for air, naval and ground applications, such as Eurofighter, the Tactical Radar for Ground Surveillance (TRGS) and MEADS. In the area of air defence, EADS produces mid-range radars for ship (TRS-3D) and land (TRML-3D) applications. As subcontractor for the K-130 corvettes of the German Navy and the Finnish Squadron-2000 programme, EADS is responsible for major shipboard sensor subsystems. A success in the U.S. market was a bilateral agreement signed in October 2004 for a long-term partnership with Lockheed Martin to evaluate opportunities for joint development, marketing and production of the TRS-3D in other shipbuilding programmes worldwide, which has led to two radar contracts to date.

DE also takes a lead role in developing and manufacturing synthetic aperture radars (SAR), which are considered essential for future reconnaissance and surveillance operations. In this field, EADS has developed MiniSAR, the European stand-off SAR sensor for wide-area surveillance (SOSTAR-X) as well as for use in the TCAR AGS Radar for the NATO AGS programme. DE's radar competence is underscored by the Microwave Factory, an automated assembly line for the manufacturing of miniaturized high frequency components forming an integral part of future radar sensors and electronic warfare applications. EADS holds a 50% stake in United Monolithic Semiconductors (UMS), a joint venture with Thales. UMS provides EADS with access to essential gallium arsenide technology for next-generation radars.

## Military Air Systems

The DS Division's Military Air Systems unit focuses on the development and manufacturing of the Eurofighter combat aircraft, maintenance, repair and overhaul (MRO), logistics

support, upgrade of existing combat air systems, provision of training services and construction and manufacturing of Airbus aerostructures. Additionally, Military Air Systems designs light combat / training aircraft and unmanned aerial vehicles (UAV / UCAV). Military Air Systems has launched the MACH4i change project to optimize its organisation, streamline its internal processes and improve its corporate culture.

In 2005, the Military Air Systems business generated 32% of DS's total revenues.

## Products and Services

*Eurofighter.* Eurofighter, known as "Typhoon" for export outside of Europe, is a network-enabled, extremely agile, high-performance multi-role combat aircraft optimised for swing-role operations in complex air to air and air to surface combat scenarios. It is fully compatible with state-of-the-art NATO weapons systems. Known as Europe's largest collaborative programme, Eurofighter is designed to enhance fleet efficiency through a single flying weapon system capable of fulfilling supersonic, beyond-visual-range combat, subsonic close-in air combat, air interdiction, air defence suppression and maritime and littoral attack roles. The tactical requirements of the aircraft include all-weather capability, short take-off and landing capability, high survivability and operational readiness. The Eurofighter was designed to be adapted and improved over the long-term, as new avionics and weapons evolve, to provide for an extended service life.

The Eurofighter programme is organised through the NATO Eurofighter and TORNADO Management Agency ("NETMA") via participating nations. NETMA contracts with Eurofighter Jagdflugzeug GmbH (Eurofighter GmbH), the programme management company for the Eurofighter programme. The Eurofighter GmbH shareholders and subcontractors are EADS (46% share), BAE Systems (33% share) and Alenia Aerospazio, a division of Finmeccanica (21% share). With regard to series production, the respective production workshares of the participating partners within the Eurofighter consortium stand at 43% for EADS, 37.5% for BAE Systems and 19.5% for Alenia, reflecting the relative number of aircraft ordered by each country's programme participant. EADS is responsible for the centre fuselage, the flight control systems, the manufacturing of the right wing and leading edge slats, and

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

the final assembly of the 180 aircraft for the German Air Force and 87 aircraft ordered by the Spanish Air Force. The final assembly of the Eurofighter takes place in the relevant contracting country: Manching in Germany, Getafe in Spain, Warton in the U.K. and Torino in Italy.

In January 1998, NETMA signed an umbrella Eurofighter contract for 620 aircraft: U.K. 232 (with 65 options); Germany 180; Italy 121 (with 9 options); and Spain 87 (with 16 options). The umbrella contract, while fixing a maximum price for the overall programme, also stipulates that production agreements are to be awarded in three tranches. The programme includes the development, production investment and series production of the aircraft. Currently, 402 aircraft are firmly on order.

Eurofighter's first tranche of 148 aircraft is being delivered between 2003 and 2007, with additional production expected to continue until 2015. Seventy-four Tranche 1 aircraft have been delivered as of the end of 2005, and the rest are in final assembly or advanced production. Eurofighter has already sold 18 aircraft to Austria, and further export opportunities are believed to exist in Europe, the Middle East and the Far East. A government-to-government agreement has been reached between the U.K. and the Kingdom of Saudi Arabia on the purchase of Eurofighter aircraft, marking the first export success of the aircraft outside Europe.

*Intelligence, Surveillance and Reconnaissance Systems (ISR).* ISR focuses on the development of complete air-based systems with integrated sensors for strategic, operational and tactical missions primarily for information procurement (i.e., surveillance and reconnaissance). The ISR product portfolio comprises the complete spectrum of manned mission aircrafts and Unmanned Air Vehicles ("UAVs") and Unmanned Combat Aerial Vehicles ("UCAV"). In June 2004, the French MoD launched an initiative to close the gap in European defence capacity in the area of MALE drones with a system designed and manufactured by European industry. The Minister subsequently appointed EADS for the EuroMALE drone demonstrator programme. EADS' main partners in the project are Dassault and Thales. EADS is also working on a technology demonstrator project to acquire new experiences and technologies for future UAVs.

The transatlantic EuroHawk® project was initiated by EADS and Northrop Grumman in July 2000. The two companies signed an agreement to develop an unmanned aerial wide-

area surveillance and reconnaissance system by bringing together their respective expertise and company-funded developments in UAV and mission system ISR technology. This cooperation initiated a bilateral project agreement between the U.S. Air Force and the German MoD, which was signed in October 2001. The first phase of the project includes the proof of operation of the high altitude long endurance (HALE) UAV concept, the integration of the Defence Electronics (DE) signal intelligence (SIGINT) sensor and a flight demonstration programme in Germany successfully concluded in 2003 to the customer's continuing satisfaction. Additional milestones include the German Procurement Agency proposal request delivered in September 2004 and the expected Design and Development Contract award in 2006.

The Transatlantic Industry Proposed Solution ("TIPS") Consortium, made up of EADS, Galileo Avionica, General Dynamics Canada, Indra, Northrop Grumman and Thales, was selected by NATO in April 2004 to provide a NATO-owned common ground picture for battlefield planning with a mixed fleet of manned wide body -jets (A321) and high -altitude long -endurance UAVs (Global Hawk). The Transatlantic Cooperative AGS radar ("TCAR") will equip both manned and unmanned platforms. The TCAR consortium under the lead of DE is composed of Dutch Space, EADS, Galileo Avionica - FIAR, Indra, Northrop Grumman, Raytheon and Thales. The TCAR programme will be integrated into the NATO AGS bid, acting as a subcontractor within TIPS. In 2005, TIPS successfully completed a risk reduction study which was another important milestone that confirms this programme is both affordable and executable. The Design and Development Contract award from NATO is expected in 2006.

*Pilot Training and Training Aircraft.* The training and light combat aircraft market is competitive, with offerings from BAE Systems (Hawk 128), KAI/Lockheed Martin (T-50), Aermacchi (AM-346) and others. EADS' entry in this field is the Mako High Energy Aircraft Trainer (HEAT). The Mako HEAT is intended to close the growing gap between the demands made on pilots by modern fighter aircraft and the training opportunities provided by ageing in-service trainers. While EADS will not launch a full-scale design phase for the time being, efforts to win customers and industrial partners will continue.

*Military Air Systems Upgrades and Support Services.* In addition to providing profitable after-market services to existing customers, aircraft modernisation operations provide access to new export markets for future sales of all types of aircraft, both military and commercial. The upgrading of military airframes is particularly attractive for countries with limited national defence budgets, such as those in Central and Eastern Europe, Latin America, North Africa and some Asian regions. For these nations, the purchase of new multi-role aircraft is either politically or economically unaffordable, making upgrading of existing airframes the most cost-effective solution. EADS has developed expertise in the field of Military Air Systems upgrades through programmes for such aircraft as the Tornado, F-4 Phantom, F-18, F-5, MiG-29, Mirage F-1, C101 Aviojet, Harrier AV-8B, E-3A AWACS, P-3A Orion, C-160 Transall and Breguet Atlantic 1. These capabilities will be particularly valuable in capturing new markets, such as further upgrades of central European air force aircraft and future support contracts for Eurofighter.

## Missile Systems

The Missile Systems group within the DS Division (consolidating 50% of MBDA and 100% of EADS / LFK) offers superior and unique capabilities in missile systems and covers the whole range of solutions for air superiority, land control and sea power missions, while also providing the most evolved technological solutions in strike weapons and missile defence for all three services. The further development of access to export markets access and the consolidation of the business will remain principal goals for 2005. Enhancing the missile technology and product portfolio to provide customers with a broader range of cost-effective missile solutions should enable MBDA to continue to offer an unrivalled range of products and services. The integration of EADS / LFK into MBDA is under way, following receipt of final approvals from the European Commission and the German competition authority in February 2006.

In 2005, the Missiles Systems business generated 35% of DS's total revenues.

## Markets

Missile Systems has a geographically diverse customer portfolio. Through a multinational network of subsidiaries, this unit has direct access to the major European domestic markets in France, Germany, Italy, Spain and the U.K. It also has a stable foothold in growing export markets such as Asia and the Gulf region, and benefits from transatlantic cooperation on programmes such as MEADS and Patriot.

Four principal defence contractors are active in the worldwide market for tactical missiles and missile systems. As measured by revenues in U.S. Dollars, MBDA ranked first in 2005 sales figures for the second time and ahead of Raytheon, Lockheed Martin and Boeing missile activities. The current worldwide market for missile systems is estimated to exceed €10 billion. This market is expected to increase due to:

- the demand for development of new products (such as ground-based air defence systems and precision stand-off guided missile systems);
- new missile carrying platforms entering into service (Mirage 2000-5/9, Rafale, Eurofighter/Typhoon, Gripen, Tiger helicopter, new frigates and aircraft carriers); and
- different requirements for future weapon systems derived from new operational tasks and lessons learned from recent conflicts.

## Products

The EADS Missile Systems group, with its broad range of MBDA and LFK products, is active in all of the six principal missile system categories: air-to-air, air-to-surface, ground-to-air, surface-to-air, anti-ship and surface-to-surface. The following table lists the programmes in which EADS participates as prime or major contractor either directly or through joint ventures:

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

Type of Missile	Purposes	Key Products or Projects
Air-to-Air	Short-range	ASRAAM
	Beyond visual range	MICA
	Long-range	Meteor
Air-to-Ground	Stand-off guided	Taurus KEPD 350, AFDS, DWS (for fighter aircraft)
	Long-range	LR TRIGAT (for TIGER helicopter)
	Short-range	Diamond Back - Bang
	Stand-off with sub-munitions	Apache
	Stand-off unitary warhead	Scalp EG / Storm Shadow
	Prestrategic stand-off	ASMP - ASMP A/VESTA
	Anti-radar	ALARM
Ground-to-Air	Tactical air defence	Stinger, LFK NG, Roland, Gepard, Patriot / PAC 3, MEADS
Ground-to-Air/ATBM	Very short-range	Mistral - Stinger (under license)
	Short-range	VL Mica - Roland - Rapier - Spada
	Medium-range	Aster SAMP / T - MEADS - Patriot/PAC 3
Ground-to-Ground	Medium-range	Milan / Milan ADT, HOT
Subsystems		Warheads (TDW)
		Propulsion Systems (Bayern Chemie) (e.g., Meteor / ramjet)
Surface-to-Air/Naval	Very short-range	Mistral
	Short-range	VL Mica - VL Seawolf
	Short-range	Albatros - RAM
	Medium-range	Aster/PAAMS - Aster / SAAM - ESSM
Anti-ship	Light	Sea Skua - AS 15 TT - NSM - Marte
	Heavy	Exocet family - TESEO
	Anti-submarine	Milas
Anti-tank	Short-range	Eryx
	Medium-range	Milan
	Long-range	HOT - LR Trigat - Brimstone
Surface-to-Surface, Deep Attack	Ground-to-ground	G-MLRS
	Sea-to-land	Scalp Naval

The most significant programmes currently under development and production are Aster, Storm Shadow / Scalp EG, Taurus and Meteor, with the bulk of deliveries scheduled between 2003 and 2007.

*Aster Family.* The FSAF (*famille de missiles sol-air futurs*) Phase 3 contract signed with OCCAR (Organisation Conjointe de Coopération en matière d'Armement) in November 2003 is worth €3 billion (thereof €2.3 billion MBDA). This contract covers the series production of approximately 1400 Aster missiles and associated missile systems, and it represents Europe's first advanced naval and ground-based air defence missile system with Anti-Tactical Ballistic Missiles (ATBM).

*Storm Shadow / Scalp EG.* Already in service in the U.K. and France, and entering service in Italy in 2006, the Storm Shadow / Scalp EG was also selected by Greece in January 2004. The Hellenic Air Force has ordered 34 Storm Shadow / Scalp EG (SS / EG) missile systems. Having reached full production in 2004, the SS / EG has delivered about 600 missiles to customers in 2005. In the UAE, where the missile is known as "Black Shaheen", deliveries are under way to the air force.

*Taurus KEPD 350.* EADS / LFK and SAAB Bofors are working together under the roof of Taurus Systems GmbH to create and deliver the Taurus KEPD 350, a precise stand-off guided missile system for Tornado, Gripen and



Eurofighter aircraft. Taurus KEPD 350 is starting series production for the German Air Force and a first batch of 65 have been delivered. In 2005, Spain has also decided its intention to procure 43 Taurus KEPD 350 for its F/A-18 and Eurofighter aircraft.

*METEOR.* For its first live air-launched demonstration in 2006, METEOR will be fired from a Gripen combat aircraft at the Vidsel range in Sweden. This test flight, using a missile equipped with a full telemetry capability (not with a warhead or a seeker), will confirm METEOR release properties, manoeuvrability and the effectiveness of the motor technology as it goes through its boost and sustain phases

*MEADS.* The MEADS Medium Extended Air Defence System, a ground-based tactical air defence system, is a good example of dynamic and successful cooperation on a transatlantic level. MEADS will protect troops during out-of-area missions and objectives within the scope of homeland defence. The financial share of the programme is 58% American, 25% German and 17% Italian. The technical workshare of the companies involved – EADS / LFK (Germany), MBDA-IT (Italy) and Lockheed Martin (United States) – is in line with the respective cost contribution percentages. The European companies coordinate their activities through the joint venture company euroMeads GmbH, which, like Lockheed Martin, has a 50% share in MEADS International Inc. (“MI”). On 1st June 2005, MI formally signed a contract to design and develop MEADS. The contract value is approximately \$2 billion plus €1.4 billion for the program’s design and development (“D&D”) phase. The D&D contract extends the period of performance of a previous letter contract that was awarded to MI by the NATO MEADS Management Agency (NAMEADSMA) in September 2004. Award of the contract followed the German government’s approval on 20th April 2005 of entry into the MEADS D&D phase, a step taken earlier by the governments of Italy and the United States.

*Ballistic Missile Defence.* EADS is the only company in Europe with the full range of skills and technologies needed to develop, deploy and support Ballistic Missile Defence (“BMD”) systems, whether for the protection of armed forces or entire countries and their populations. As part of the U.S. effort to develop a defence against missile attack, NATO has selected EADS as a member of a transatlantic

consortium to conduct a Theatre Missile Defence feasibility study. In September 2004, EADS and Raytheon signed a co-operative agreement to begin collaborating on ballistic missile defence interceptor programmes in Europe, the U.S. and around the world. EADS has signed further Memorandums of Understanding in the field of BMD with Lockheed Martin and Northrop Grumman.

## Services Activities

The DS Division’s Services activities were organized in 2005 around outsourced services, test and related services, and system engineering services. Each BU leads operative parts of the services business, further developing the activities in the area. Additionally, a centre of competence for services activities is being created. Capacities for future cooperative models with the customer will be strengthened. The growing complexity of modern systems and engineering tools and the requirement for cost-effectiveness has led customers to demand turnkey solutions instead of stand-alone equipment. Because of its technical and organisational capabilities, EADS can pool the resources and products of its various subsidiaries and external suppliers to offer such solutions.

For armed forces, outsourcing is an effective solution to the problems of tight public budgets and reductions of military personnel. To maintain its position as prime contractor with military customers and to generate profitable growth in stable defence markets, EADS aims to play a key role in such outsourcing of defence activities.

In 2005, Services activities generated 4 % of DS’s total revenues.

## Outsourced Services

This provides for training services to the German and French navies and air forces for air defence, in addition to other services in Europe. EADS was selected by the German MoD for a 5-year flight operations contract (€95 million) from 2004 until 2008 (target towing, ELOKA training). Altogether, Services units operate 26 aircraft.

Services also participates in various outsourcing projects for French, German, Spanish and U.K. military customers in the field of logistics, training, telecommunications and flight operations.



## Information on EADS Activities

### 1.1 Presentation of the EADS Group

Services units will participate in the Atlas consortium, which was shortlisted against on competitor in the DII (Defence Information Initiative in military communications) project.

#### Test & Services

The increasingly complex electronics used in civil and military air systems and weapon systems require continuous equipment maintenance testing solutions.

Through its Test & Services unit, the DS division confirmed its leading worldwide market share position for multi-purpose civil aviation test systems and related services, as well as its leading position in Europe as supplier of multi-purpose defence test equipment. In 2005, Test & Services sustained its level of orders from airlines worldwide. This is consistent with Test & Services' strategy to develop a scalable technical standard that provides airlines with continuous solutions.

The acquisition of Racal Instruments resulted in the group's Test & Services unit becoming the leader in the market for testing equipment, solutions and services in Europe. Future plans include implementing and developing synergies between Racal Instruments and the former Test & Services unit and generating new customers in different countries through partnerships or industrial presence.

#### System Engineering and Consulting Services

In 2005, Apsys continued to build on its position as the French leader in risk management on advanced technology projects. This operating unit offers different types of services (e.g., consulting; studies; training; software; and

audit) along all phases of a project life-cycle and utilises various technical approaches (e.g., reliability, availability, maintainability and safety studies; human factor analysis; industrial, environmental and nuclear risk assessment; and software and system quality). Major markets include aeronautics, defence, the petroleum industry and transportation systems. Apsys plans to continue its long-term partnerships with EADS customers (Airbus, Eurocopter and Space Launchers), representing the majority of its revenues, while also diversifying and enhancing its business with other customers.

#### Dornier Consulting GmbH

Dornier Consulting continued its direction of profitable growth in 2005 as a company for Future-oriented transportation and technology consulting with focus on traffic, transportation and logistic concepts, system specification and integration, modern technologies for the management of natural resources as well as professional full-service project management. It is an independent consulting and engineering company with clients in the public and private sector in Germany, Central and Eastern Europe, Central Asia as well as in the Near and Middle East. Major clients are national and international institutions (World Bank, United Nations Development Programme, European Union, *Kreditanstalt für Wiederaufbau* (KfW), *Gesellschaft für Technische Zusammenarbeit* (GTZ)), governments, authorities, German Railroad (*Deutsche Bundesbahn*), DaimlerChrysler and EADS as well as a wide spectrum of private companies. Dornier Consulting intends to further develop its position within EADS and to act as a door opener for other EADS Units.

### 1.1.6 Space

#### Introduction and Overview

EADS is the third-largest space systems manufacturing company in the world after Boeing and Lockheed Martin and the leading European supplier of satellites, orbital infrastructures, launchers and associated services. In 2005, the Space Division's consolidated revenues were €2.7 billion, representing 8% of EADS' total revenues.

The Space Division ("EADS SPACE") designs, develops and manufactures satellites, orbital infrastructures and launcher systems and provides space services. EADS SPACE is composed of three main entities: EADS Astrium, EADS SPACE Transportation ("EADS-ST") and EADS SPACE Services. EADS SPACE also provides launch services, through its shareholdings in Ariespace (Ariane 5 launcher), Starsem (Soyuz launcher) and Eurockot (Rockot launcher),

as well as services related to telecommunications and earth observation satellites, through dedicated companies such as wholly-owned subsidiaries Paradigm Secure Communications and Paradigm Services (“**Paradigm**”), Infoterra and joint ventures such as Spot Image.

The return to profitability of EADS SPACE in 2004, following two years of major industrial re-engineering, was maintained in 2005 with a positive EBIT\* of €58 million (2.2% of revenues). All three BUs of EADS SPACE, (EADS Astrium, EADS-ST and EADS SPACE Services) have posted positive 2005 results.

## Strategy

As part of EADS, with an established presence in four European space powers (France, Germany, Spain and the United Kingdom), and a future presence in the Netherlands due to the on-going acquisition of Dutch Space, EADS SPACE is the only European company to benefit from the full range of competencies in all fields of the space industry (satellites, launchers, orbital infrastructure and services). EADS SPACE’s strategy is to build on these key strategic assets and to strengthen its position in the market.

### Secure EADS’ position in the commercial launch services market

As the main industrial shareholder and prime supplier of Arianespace, and with the backing of European governments (illustrated by the implementation of the European Guaranteed Access to Space (EGAS) initiative), EADS leads the restructuring of the European space transportation industry in response to increased competition in the launch vehicle field and a weak commercial telecommunications satellite launch market. EADS SPACE is the prime contractor for Ariane development and production, and is therefore in a position to streamline the Ariane manufacturing process in order to reduce costs and to increase launcher performance and reliability. The qualification of the Ariane ECA launcher, obtained after a second successful launch in November 2005 (the first one having occurred in February 2005), reflect the results of these efforts. The decisions of the December 2005 Space Ministerial Conference further illustrate the determination of the European governments to support Ariane. Reinforced

links with the Russian space industry (Starsem and Eurockot joint ventures) further buttress EADS’ position in the commercial launch services market.

### Extend EADS’ leadership in European military space programmes

Management views national and European space programmes, such as the Paradigm and Satcom BW programmes, as important future growth segments for the Company. EADS SPACE operates the Skynet system for the U.K. government and is developing Paradigm to serve the U.K. government’s needs in the coming years. In addition, because spare capacity is available on Paradigm, EADS SPACE has made available its services in military telecommunications, and has signed contracts with NATO, Portugal and other governments for their secure satellite communications requirements. EADS SPACE is also well-positioned in military reconnaissance systems (Helios II and Pleiades) and other military-specific capabilities (e.g., Spirale, Lola, Essaim and Elint). An agreement to supply and operate for Germany secured communications satellites has been reached, which is currently subject to the customary German parliamentary approval process. Management believes that European governments realise the increasing importance of space systems following the Iraq, Afghan and Kosovo military campaigns and can be expected to commit greater resources to independent use of space-based systems, triggering potential export opportunities for EADS.

### Become the European leader in navigation systems and services

Management believes that the Galileo satellite-based navigation system offers numerous development opportunities to EADS in the civilian (e.g., air traffic control) and security (e.g., precision positioning) markets. EADS SPACE is the largest member of Galileo Industries, the hardware provider for the Galileo project. In order to operate the Galileo concession, the two competing consortia, iNavSat (EADS, Inmarsat and Thales) and EUrely (Alcatel-Alenia Space, Finmeccanica, Hispasat and Aeropuertos Españoles y Navegacion Aérea (AENA)), together with a third entity (TeleOp), merged. The merged consortia expect to be awarded a concession contract by the Galileo Joint Undertaking (ESA and the European Commission) in 2006.

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

## Satellites – EADS Astrium

### Overview

EADS Astrium is the leading European company in the design and manufacture of satellite systems, spanning all major segments of the satellite market, including platforms, payloads and equipment. It provides (1) telecommunications satellites to leading telecommunications service providers, (2) earth observation, navigation and science satellites systems to major national and international agencies, and (3) military applications satellite systems to European MoDs. EADS Astrium also designs and manufactures payload equipment and subsystems for the global space industry market.

EADS Astrium's business covers the four categories of satellite systems described below:

*Telecommunications satellites* have multiple applications, such as long-distance and mobile telephone links, television and radio broadcasting, data transmission, multimedia and Internet trunking. They may be used for civil or military applications.

*Observation satellites* allow the gathering of information for various fields, such as cartography, weather forecasting, climate monitoring, agricultural and forestry management, mineral, energy and water resource management and military surveillance applications.

*Scientific satellites* are tailor-made products adapted to the specific requirements of the mission assigned to them. They have applications such as astronomical observation of the sources of radiation of the universe, planetary exploration and earth sciences.

*Navigation satellite systems* deliver signals that enable users to determine their geographic position with high accuracy, and are increasingly significant in many sectors of commercial activity, such as airlines, transport operators on land, sea and air, emergency services, agriculture and fisheries, tourism and telecommunications networks.

### Market

The commercial telecommunications satellite manufacturing market is highly competitive, with customer decisions based principally on price, technical expertise and track record. EADS Astrium has approximately 15-20% of this worldwide market, and its main competitors are Boeing,

Lockheed Martin and Loral of the United States and Alcatel-Alenia Space of France and Italy. Management views the telecommunications satellite segment as slowly recovering from the effects of a market consolidation, because of such factors as (1) increased telecommunications demand, including Internet, multimedia and military needs, and (2) greater demand to replace aging fleets. But, the segment remains a highly competitive market, due in part to the increasing concentration of satellite operators. EADS intends to strengthen its position in this field and to participate in the market recovery.

EADS benefits from its long-term and close relationships with institutional customers in France, Germany, Spain and the United Kingdom that have access to their respective national budgets.

In Europe, the market for observation, scientific and navigation satellites is organised either on a national or on a multinational (European Space Agency ("ESA"), Eumetsat) basis and in accordance with the fair return policy, under which contracts are awarded to domestic suppliers in proportion to the respective contributions of the suppliers' countries.

There is emerging export demand for earth observation systems, for which EADS is currently the sole significant European provider. Furthermore, civil state agencies, including ESA, are likely to display increased needs for earth observation satellites in the framework of European environmental programmes, identified as a key focus of the E.U./ESA framework agreement on European Space Policy in 2003, and further emphasized in the Space Ministerial Conference held in December 2005. EADS expects the scientific satellite market to remain stable over the medium term.

The agreements reached in 2003 at the E.U. level and among ESA member states regarding the development and implementation of Galileo, the new European global satellite navigation system, led to the establishment of the Galileo Joint Undertaking (the legal entity that will have the task of coordinating ESA and E.U. involvement in Galileo).

The Galileo programme comprises 30 navigation satellites and a potential equipment contract valued at more than €3 billion. Full deployment of the system is expected around 2010. For the space industry and its customers, the Galileo programme's economic, industrial and strategic importance

is paramount. This programme is likely to be a driver of innovative user and customer-oriented solutions, creating new markets for navigation-related services.

In the market for military satellites, EADS expects increased demand for telecommunications and observation satellites. In recent conflicts, the shortcomings of European military capabilities in that field have become increasingly visible, while the need for preparedness in the face of elusive threats has promoted such means to a higher level of priority. The Skynet 5 contract in the United Kingdom, the Helios 2, Spirale, Lola and Essaim contracts in France and the German BW contract in Germany illustrate the growth trend in this market.

## Products

EADS is able to offer turnkey satellite systems to its customers. EADS Astrium manufactures satellite systems, platforms, payloads, major subsystems and a wide range of equipment. EADS Astrium Spain, a wholly-owned subsidiary of EADS Astrium, supplies platforms, space-borne antennas, deployment mechanisms and harness subsystems for telecommunication satellites. Tesat, another wholly-owned subsidiary of EADS Astrium, is in charge of telecommunication electronic equipment and subsystems. EADS Astrium Spain and EADS Sodern also contribute to EADS' work on earth observation satellites.

*Telecommunications Satellites.* EADS Astrium produces telecommunication satellites for fixed and mobile applications and direct-to-home broadcast services. EADS' geostationary telecommunications satellites are based on the EUROSTAR family platforms (40 ordered to date), the latest version of which is EUROSTAR 3000. Three commercial service satellites based on the new E3000 platform were placed into orbit in 2005: Inmarsat IV F1, Inmarsat F2 and Anik F1R.

In 2005, EADS Astrium signed a contract for the Astra 1M Telecommunication satellite for the company SES Astra, based in Luxembourg.

In the field of military telecommunications satellites, EADS Astrium is responsible for the new-generation Skynet 5 system as part of the Paradigm project awarded to EADS SPACE Services in 2003. Development of the project progressed in 2005, with major milestones being met and additional hardware being requested. The finalisation of the Satcom BW contract is expected mid-2006.

*Observation Satellites.* EADS Astrium is the leading European supplier of earth observation satellite systems, for both civil and military applications. In this field, EADS Astrium derives significant benefits from the common elements of its civil and military programmes.

EADS Astrium designs and manufactures a wide range of highly versatile platforms, optical and radar instruments and ground segment equipment for the complete scope of remote-sensing applications, operations and services. EADS Astrium is one of the global market leaders in the field of earth observation satellites, and the prime contractor for many of ESA's and CNES' principal observation programmes. Specifically, it is the prime contractor for: (1) the Spot multi-mission platform series, in use in 15 European earth observation satellites and recognised as an industry standard (the latest generation, Spot 5, with enhanced coverage capability was launched in May 2002); (2) Envisat, a European environmental monitoring satellite launched in March 2002; (3) Metop, a next-generation polar-orbiting meteorological satellite system to be operational in 2006; (4) Pleiades, two small and highly agile earth observation satellites for civil and military applications, expected to be launched in 2008 and 2009; and (5) Swarm, a climatology satellite monitoring the evolution of the earth's magnetic fields.

2005 witnessed the launch of Cryosat, a radar satellite designed to monitor the thickness of polar ice caps, which unfortunately failed due to a launcher malfunction.

In the export market, EADS Astrium signed a contract in May 2005 with the Korean authorities to provide the communication and earth observation satellite Coms, together with the associated ground segment, for delivery in 2009.

*Science Satellites.* EADS Astrium is the prime contractor for the spacecraft in ESA major scientific programmes, including the four Cluster II spacecraft, the vast XMM-Newton space telescope, Mars Express, (the first European mission to Mars) and Venus Express.

Venus Express was successfully launched from Baikonour in November 2005, and MSG 2 from Kourou in December 2005.

*Navigation Satellites.* EADS Astrium, together with Alcatel, Alenia Space and GSS has established a dedicated company to build and implement the European navigation system Galileo. EADS Astrium holds a 38% stake in Galileo Industries S.A. ("**Galileo Industries**"), which was awarded



## Information on EADS Activities

### 1.1 Presentation of the EADS Group

a contract for the first of two test satellites for the European navigation system in July 2003. The system's launch date is scheduled for the beginning of 2006. For the four satellites required for the validation phase, EADS Astrium is prime contractor for the space segment, and through Astrium Germany, supplies the avionics and part of the solar arrays. EADS Astrium U.K. is responsible for payload development and ground segment lead.

*Military Satellites.* In addition to military earth observation activity, EADS Astrium is active in the market for airborne laser optical links demonstrators (LOLA), early warning satellite demonstrators (Spirale) (together with Alcatel-Alenia Space) and electromagnetic intelligence satellites (Elint). These systems demonstrate EADS SPACE's leading role in complex systems offers, reflecting the efficient use of synergies between EADS' space and defence activities.

### Orbital Infrastructure / Launchers and Launch Services – EADS-ST

EADS-ST is the European space infrastructure and space transportation specialist. It designs, develops and produces Ariane launchers, the Columbus laboratory and the ATV cargo carrier for the International Space Station ("ISS"), ballistic missiles for France's deterrent forces, propulsion systems and space equipment.

#### Orbital Infrastructure

In the field of orbital infrastructures, EADS-ST is the prime contractor under an ESA contract relating to two key elements of the ISS: the Columbus Orbital Facility laboratory ("COF") and the Automated Transfer Vehicle ("ATV").

The orbital infrastructure segment in which EADS-ST operates comprises manned and unmanned space systems. The ISS, together with related vehicle and equipment development programmes and services, constitutes the predominant field of activity in this segment. The Columbia shuttle accident in 2002 led to the postponement of the launch of the European Columbus module, which is now planned for late 2007 or early 2008.

*Market.* The demand for orbital infrastructure systems originates solely from publicly funded space agencies, and in particular from ESA, NASA, Roscosmos (Russia)

and NASDA (Japan). Such systems are usually built in cooperation among international partners. In addition to the COF and ATV projects, ESA is also responsible for additional ISS components for the station's construction and operational phases. Additionally, national space agencies, such as *Deutsches Zentrum für Luft und Raumfahrt* ("DLR") and *Centre National d'Etudes Spatiales* ("CNES"), are involved in the field of experiment facilities to be used on the ISS.

*Products.* EADS-ST is the prime contractor for the development and integration of the COF. The COF is a pressurised module with an independent life-support system. It will provide a full-scale research environment in microgravity conditions (material science, medicine, human physiology, biology, earth observation, fluid physics and astronomy) and will serve as a test-bed for new technologies. In December 2005, the ESA awarded a contract to EADS-ST for the operation and exploitation of the European elements of the International Space Station. The contract affirms EADS-ST's position as the sole European prime contractor on this significant international space programme.

In addition to the COF, including all facilities required for energy supply, communications and interfaces to other station elements, EADS-ST is responsible for the Columbus onboard Data Management System. It also participates in the construction of the ISS robotic system European Robotic Arm to be used by astronauts in the assembly and maintenance of exterior station elements during the construction and operational phases.

EADS-ST is also the prime contractor for the development and manufacture of the ATV, designed to carry fuel and supplies to the ISS and to provide reboost capability and a waste disposal solution. The ATV will be the first European vehicle to carry out a rendezvous in space and dock automatically with an orbital station. The first ATV, called Jules Verne, will be launched by the Ariane 5 rocket in mid-2007, with additional ATV missions scheduled through 2013.

Under contract with ESA and DLR, EADS-ST supplies experiment facilities to be used in various station modules for research in microgravity conditions (MSL laboratory, MCS system, RFR refrigerator, CFR rack, MSG glove box, PCDF and Cardiolab laboratories). It also supplies CNES



with a Dedic experiment facility for experiments in the field of fluid physics.

## Launchers & Launch Services

Space systems (including satellites, orbital infrastructure elements and interplanetary probes) depend on rocket propelled multi-stage launchers, which are consumed during the launch process, to place them into orbit.

EADS-ST is active in two distinct businesses: (1) designing and manufacturing launchers for both civil and military purposes; and (2) providing launch services through its interests in Ariespace, Starsem and Eurockot.

EADS-ST is the sole prime contractor for the Ariane 5 system, with responsibility for the delivery to Ariespace of a complete and fully tested vehicle. EADS also supplies all Ariane 5 stages, the equipment bay, the flight software, as well as numerous sub-assemblies. Additionally, EADS-ST is the prime contractor for ballistic missile systems to the French State. It is responsible for the development and manufacturing of the M45 and M51 submarine-launched missiles and related operating systems.

*Market.* Management estimates that the average open commercial market for launch services will likely remain low, at approximately 20 payloads per year, mostly made up of geostationary telecommunications satellites. However, due to various factors (e.g., technology advances and consolidation of customers), this figure is highly volatile. This market does not include institutional launch services for the American, Russian and Chinese military and governmental agencies.

The consolidation of the satellite operators sector in recent years has changed the market of launch services. Joint ventures (e.g., International Launch Services, Sea-Launch, Starsem and Eurockot) have been organised, combining access to low-cost rockets from former Soviet Union companies with the marketing capabilities of western manufacturers, and have created strong competition on the commercial launches market.

In national defence, France follows an independent policy to have its own deterrent force, which is currently based on submarine-launched ballistic missile systems and airborne tactical missiles. In 1998, the French State decided to develop a new generation of ballistic missiles. In addition

to production and state-financed development work, the ballistic missile segment entails substantial maintenance work to ensure system readiness over the life span of the equipment, which may stretch over several decades. EADS SPACE's ballistic missile segment activities are conducted through EADS-ST, which is the exclusive supplier of ballistic missiles to the French State, its sole customer in this area.

*Products and Services / Launch Services.* EADS-ST is active in the field of launch services through its shareholdings in Ariespace (for heavy-lift launchers), Starsem (for medium-lift launchers) and Eurockot (for small-lift launchers).

*Ariespace* — EADS-ST, with a 28.7% stake in Ariespace (direct and indirect), is Ariespace's second-largest shareholder (after CNES) and its largest industrial shareholder. Ariespace is the world's largest commercial launch service provider in terms of total order book. At the end of 2005, Ariane had launched 232 satellites. Ariespace markets and sells the Ariane launcher worldwide and carries out launches from the Kourou space centre in French Guyana.

In 2005, Ariespace won five new commercial contracts, representing 30% of the accessible market. It also won two governmental launch contracts in 2005. Five Ariane 5 launches were carried out in 2005, placing into orbit eight satellites (six commercial and two institutional).

Two versions of Ariane 5 are currently in service: the Ariane 5G, which is able to launch one or more payloads with a total mass of up to 6.9 tons into geostationary transfer orbit, and the Ariane 5 ECA, which will progressively replace the Ariane 5G. The Ariane 5 ECA is now fully qualified after two successful launches in February and November 2005 and has an increased launch capacity of 10 tons in geostationary transfer orbit. Since 1999, when the first Ariane 5 commercial launch occurred, 20 Ariane 5 rockets have been successfully launched.

In May 2004, a contract valued at €3 billion was signed between Ariespace and EADS-ST for the delivery of 30 increased lift versions of Ariane 5. EADS-ST's prime position has been confirmed with the award by ESA of the so-called slice 10 development contract in October 2005. In parallel, Europe's commitment to support a European launcher was demonstrated by the signature between ESA and Ariespace of the "European Guaranteed Access to

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

Space” (EGAS) in March 2004 and by the December 2005 “buy European” recommendation of the Space Ministerial Conference in respect of institutional satellite launch services.

*Starsem* — EADS-ST directly owns 35% of Starsem, a French corporation, along with Arianespace (15%), the Russian space agency (25%) and the Russian state-owned Central Specialised Design Bureau “Progress” (25%). Through Arianespace, Starsem markets launch services by Soyuz launchers for medium-weight spacecrafts into low or sun-synchronous orbits as well as for interplanetary missions. In 2005, two additional contracts have been signed and two institutional launches have been performed from Baikonur, as well as a commercial launch under a subcontract from Arianespace. Following the ESA Ministerial Conference in May 2003, which approved the offering of Soyuz launches from Kourou, work began on the launch pad, and the first launch, which will be operated by Arianespace, is scheduled for 2008.

*Eurockot* — EADS-ST (51%) and Khrunichev (49%) jointly control Eurockot Launch Services, which procures launch services for small, low-earth orbit satellites with Rocket launchers derived from the SS-19 ballistic missiles. In 2005, Eurockot signed the Theos contract with Thailand and the Proba 2 contract for ESA. One launch has occurred (Cryosat for ESA), but was unsuccessful. The root cause of the failure has been identified and corrected.

*Products and Services / Commercial Launchers.* EADS-ST manufactures launchers and performs research and development for the Ariane programmes. Member states, through ESA, fund the development cost for Ariane launchers and associated technology. Arianespace markets and sells launch services worldwide.

In 2005, efforts were focused on the qualification of the 10-ton version of Ariane and the implementation of the organisation of Ariane production under a single prime contract, in accordance with the decisions of the ESA ministerial conferences in November 2001 and May 2003.

Following the successful flights in February and November 2005, the 10-ton version of Ariane 5 (Ariane 5 ECA) is now fully qualified. Regarding the streamlining and rationalisation of the Ariane organisation, the leadership of EADS-ST has been confirmed and the company is poised for development (signature of the so-called slice 10 development

contract with ESA in 2005) and production (signature of the PA batch for 30 Ariane 5 rockets in 2004).

EADS-ST management remains committed to reducing production costs and to optimising, together with Arianespace, the Ariane system.

*Products and Services / Ballistic Missiles.* EADS-ST is the only company in Europe that designs, manufactures, tests and maintains ballistic missiles. Under its contracts with the French State, EADS-ST has produced the submarine launched MSBS family (M1, M2, M20, M4 and M45) and launch facilities at the Brest naval base. The M45 is deployed onboard France’s new-generation nuclear-powered ballistic missile submarine. The Company manages the operational maintenance of the M45 missile system, assisting the French armed forces during test firing and with missile integration until the end of its operational service. EADS-ST is under contract to develop the M51, a new submarine-based strategic missile system with increased technical and operational capabilities. At the end of 2004, the French MoD awarded EADS-ST a contract for the M51 production phase and test range facilities with a frame-contract in excess of €3 billion. A contract for an enhanced upper-stage demonstrator was awarded by the French MoD at the end of 2005, contributing to the technical capabilities of the Company in this field.

Management believes that the development and production of the M51 will provide EADS-ST with high quality work over the long term. In addition, the relative predictability of demand provides some stability to the otherwise volatile launcher market.

## Space Services – EADS SPACE Services

### Overview

EADS SPACE Services, which includes Paradigm, is a dedicated entity of EADS SPACE for the development and operation of satellite services, with a focus on secured telecommunication and navigation services. The first commercial provider of secure military communications services with the Skynet 5 programme for the U.K. MoD, Paradigm currently owns and operates the Skynet 4 system. Paradigm enlarged its customer base through contracts with NATO, Portugal and several other governments. In the navigation sector, the iNavSat consortium (EADS SPACE

Services, Inmarsat and Thales) has merged with the Eurely consortium (Alcatel-Alenia Space, Finmeccanica, Hispasat and AENA), together with a third entity (TeleOp), merged, in order to propose to the Galileo Joint Undertaking (ESA and European Commission) a unified solution for the concession phase. The Galileo Joint Undertaking is expected to finalise the concession contract in 2006.

EADS SPACE Services also manages holdings in satellite telecommunication service and operation companies: Nahuelsat in Argentina, Globalstar in Brazil and Hispasat and Hisdesat in Spain.

## Products and Services

*Military Communications.* The U.K. MoD selected Paradigm in 2003 to deliver global secure satellite communications service over a 15-year period for its next-generation Skynet 5 programme under a Private Finance Initiative contract. In addition, Paradigm took over the U.K.'s existing Skynet 4 fleet. This groundbreaking contract, under which Paradigm now owns and operates the U.K. military communication satellite infrastructure, allows the U.K. MoD to place orders and to pay for services as required. Offering a catalogue of services, Paradigm delivers tailored in-theatre and back-to-base communication solutions for voice, data and video services, ranging from a single voice channel to a complete turnkey system incorporating terminals and network management. Paradigm also provides welfare services, ensuring that deployed troops can call home and can use the Internet. Following discussions in 2005, the concession period should be extended to 20 years and the number of new satellites should be increased to 3 instead of 2. Full operational service is scheduled for the end of 2008 or the beginning of 2009.

In 2004, the German *Bundeswehr* issued a proposal request for secure satellite communication capacity, comprising a complete military satellite communication infrastructure, including a fleet of satellites, a number of tactical and strategic ground stations and a network control in the system, to be operated on their behalf for a 10-year period. The system is expected to be fully operational in the beginning of 2009. In response to this proposal request, EADS SPACE Services has set up a satellite provider

consortium with ND SatCom and Astrium. This consortium was selected in May 2005, and it is expected that the contract will be awarded beginning 2006, following German parliamentary approval.

*Navigation.* The iNavSat consortium (EADS SPACE Services, Inmarsat and Thales) and the EUrely consortium (Alcatel-Alenia Space, Finmeccanica, Hispasat and AENA), together with a third entity (TeleOp), merged, in order to propose to the Galileo Joint Undertaking (ESA and European Commission) a unified solution for the concession phase. The Galileo Joint Undertaking is expected to award the concession contract in 2006. Under this concession contract, the Galileo operating company will deploy and operate the satellite system over a 20-year period. The Galileo project is a major step forward for Europe, representing the first major European-level infrastructure procurement programme with a global dimension that will bring numerous benefits to the continent and the rest of the world. The market potential is promising, as global demand for satellite navigation services and derivative products is growing at approximately 25% a year.

## Production and Suppliers

EADS SPACE currently operates production facilities located in France (Vélizy, Les Mureaux, Bordeaux, Toulouse), Germany (Backnang, Bremen, Friedrichshafen, Lampoldshausen, Ottobrunn, Rostock, Trauen), Spain (Madrid), the United Kingdom (Portsmouth, Stevenage) and French Guyana (Kourou).

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

#### 1.1.7 Other Businesses

##### Regional Aircraft — ATR

ATR is a world leader in the market for regional turboprop aircraft of 40 to 70 seats. ATR Integrated is a consortium composed of EADS and Alenia, in which they each hold a 50% stake. The BU EADS ATR, that represents EADS' 50% share of ATR Integrated and that was formerly part of the Aeronautics Division, is now under the direct responsibility of EADS' CFO and co-COO.

##### Market and Outlook

The regional aircraft industry has experienced concentration in recent years. During the 1990s, a number of manufacturers merged, closed or ceased production of regional aircraft, leading to the withdrawal from the market of BAE Jetstream, Beechcraft, Fokker, Saab and Shorts. As of 31st December 2005, the worldwide market for turboprop aircraft of 40-70 seats in production was dominated by two manufacturers: ATR and Bombardier. After a number of years of relatively low activity, the regional turboprop market grew dramatically in 2005, due in large part to the advantages of turboprop aircraft over jet aircraft in terms of fuel efficiency and CO<sub>2</sub> emissions. In 2005, ATR delivered 15 new aircraft and registered orders for 90 new aircraft (in addition to a very active second-hand market). ATR's 2005 orders largely surpassed the number of orders received by its direct competitor, and represented six times ATR's 2004 order level. ATR has been particularly successful in rapidly growing markets, such as India. Furthermore, the relative fuel efficiency and reduced CO<sub>2</sub> emissions of turboprop engines are expected to sustain this market tendency and the evolution of ATR's market share over the coming years.

##### Products and Services

*ATR 42 and ATR 72 Series Aircraft.* Commencing with the ATR 42, which entered service in 1985, ATR has developed a family of high-wing, twin turboprop aircraft in the 40-70 passenger market that are designed for optimal efficiency, operational flexibility and comfort. In 1996, in order to respond to operators' increasing demands for comfort and performance, ATR launched a new generation

of aircraft designated the ATR 72-500 and ATR 42-500. Like Airbus, the ATR range is based on the family concept, which provides for savings in training, maintenance operations, spare parts supply and CCQ.

*Customer Service.* ATR has established a worldwide customer support organisation committed to supporting the aircraft over its service life. Service centres and spare parts stocks are located at Toulouse, in the vicinity of Washington D.C. and in Singapore. An e-market place designed to enhance support services developed with Embraer was made available to customers.

*ATR Asset Management.* Consistent with industry practice, a significant portion of orders received by ATR is conditional on its assistance in financing the purchase either through leasing or loan guarantee arrangements. The ATR Asset Management manages the resulting risk and responds to the growing market for second-hand aircraft. By assisting in the placement and financing of used and end-of-lease aircraft, ATR Asset Management has helped broaden ATR's customer base, notably in emerging markets, by providing quality reconditioned aircraft at attractive prices and has helped maintain residual values of used aircraft. In the past, clients for such used aircraft have subsequently purchased new aircraft as they have gained experience in the operation of ATR turboprops. Returned aircraft generally remain out of service for approximately five months awaiting reconditioning and resale or leasing, subject to market conditions. ATR has been successful in implementing its strategy of consistent reduction of sales financing exposure.

##### Production

The ATR production facilities are located near Naples, Italy and at Merignac and Saint-Martin near the Toulouse airport in France. Final assembly, flight-testing, certification and delivery occurs at the Toulouse site. ATR outsources certain areas of responsibility to the Airbus Division, including wing design and manufacture, flight-testing and information technology.



## General Aviation

### EADS Socata

EADS Socata manufactures a range of light aircraft for both the private civil aircraft market and governmental fleet, and is also engaged in aerostructure subcontracting, and producing materials and subassemblies for major international aviation programmes, including, but not limited to, EADS' programmes.

In the general aviation field, EADS Socata has developed over the past 20 years a range of piston engine aircraft, the TB family, and the monoturbo-prop pressurised TBM 700. Continuous development and use of innovative technologies keep these products well-positioned on their market. These new-generation aircraft compete with products based on models that date back to the 1950s. Many aircraft in the general aviation market are nearing the end of their service life. To improve its penetration of the U.S. market, which represents 60% of its general aviation sales, EADS Socata is developing an U.S. distributor network.

Since launching its aerostructures activity in the early 1960s, EADS Socata has positioned itself as a first-line global subcontractor for complete assemblies. Its engineering department carries out development and design for key components for major aviation programmes, including Airbus (A400M, A380...), Dassault (F7X), Eurocopter and Embraer. EADS Socata is experienced in the use of sheet metal forming and stretching, composite materials and semi-manual structural assembly for aeronautic programs. EADS Socata is also experienced in the use of composite materials for aircraft structural elements; in particular for the Airbus A330 / A340, as well as metal-composite combination technology and forming of large-dimension metal panels. Additionally, EADS Socata carries out design work for a number of European aviation programmes, including Airbus, Eurocopter, Mirage and Falcon aircraft.

## Global Support Solutions

### EADS Sogerma

With 25% of its employees located outside of Europe, and 11 locations worldwide, EADS Sogerma is internationally present. It focuses primarily on two business lines: (1) global support and maintenance, and (2) aircraft and cabin customisation and aerostructures, primarily for Airbus.

*Global Support and Maintenance.* EADS Sogerma provides global support solutions such as engineering, fleet management and airframe and components maintenance services. These services are carried out in facilities in Bordeaux, France; Lake Charles, U.S.; and Monastir, Tunisia. EADS Sogerma also provides maintenance services for military transport aircraft, including C-130 checks in Casablanca, Morocco.

EADS Sogerma also specialises in small engines (SECA in Le Bourget, France), landing gear, auxiliary power units ("APU") (in Rouen, France) and avionics maintenance, repair and overhaul ("MRO") (Bordeaux, France; Miami, Florida; and Hong Kong).

*Aircraft & Cabin Customisation and Aerostructures.* EADS Sogerma is an approved outfitter for Airbus' corporate jets, with services currently performed in Toulouse and in Bordeaux. Additionally, Bordeaux has dedicated hangar bays for large aircraft VIP completion. EADS Sogerma designs and manufactures high-end cabin interior components and first and business class passenger seats. Aircraft customisation also includes military transport and mission aircraft (e.g., C-130 life extension).

In the aerostructures field, EADS Sogerma is involved in the design and manufacture of fuselage panels and sections for Airbus aircraft and in composite components for aeronautical and general industrial applications. Metal work is conducted in Rochefort, France, while composites activities are conducted in France and Canada.

## Aircraft Conversion and Floor Panels

EADS is a major provider of aircraft conversion and technical services for airlines.

In the fields of aircraft conversion and technical services, EADS combines the operations of EADS Sogerma Services and *Elbe Flugzeugwerke GmbH* ("EFW"). Management believes that the concentration of expertise in a stable pool of highly skilled workers enables EADS' aircraft conversion and technical services group to perform services on a wide range of aircraft, including all of the aircraft produced by EADS. Additionally, the exchange of skilled workers in response to cyclical variations in the market occurs increasingly within the aircraft conversion and technical services group, generating synergies. Moreover, EADS can



## Information on EADS Activities

### 1.1 Presentation of the EADS Group

use knowledge gained through maintaining Airbus aircraft to improve initial product quality and reduce maintenance costs.

In the field of commercial aircraft technical services, knowledge exchange within EADS will benefit maintenance of early-generation Airbus aircraft and facilitate maintenance activities for newer aircraft such as the A320 or A330 / A340. Management believes that integrated packages, designed to meet customers' full range of service requirements, will be particularly attractive to small and medium-sized airlines.

Management believes that joint marketing of maintenance and conversion work has been beneficial, since EADS has been retained to perform maintenance for a large number of converted aircraft.

#### Commercial Aircraft Conversion — EFW

Conversion of passenger aircraft into freighter aircraft (“P to F”), is the modification most proposed to commercial aircraft owners. Conversion kits comprise original parts, known as Original Equipment Manufacturer or ‘OEM’ parts from the corresponding Airbus serial freighter versions, and result in a converted aircraft that is very similar to a freighter from the series production.

*Market.* The market for civil aircraft freighter conversion encompasses freight service airlines such as UPS or Federal Express, airlines with small aircraft fleets and finance groups. Two considerations drive the aircraft operators' decision to convert existing passenger aircraft to freighters: first,

conversion is the most efficient way to obtain a relatively modern freighter; second, it maintains residual values of the aircraft at relatively high levels by extending revenue-generating service life.

According to Airbus 2004 estimates, airfreight is expected to grow faster than passenger traffic in the next 20 years. Given the retirement of older aircraft, an estimated 3,100 dedicated cargo aircraft should meet this demand, of which roughly 75% would come from the conversion of passenger aircraft.

EADS' main competitor in the freighter conversion business is Boeing, which now offers P to F conversions for its complete range of aircraft except B777 and ex-MD aircraft. With BAE Services' discontinuation of its A300 B4 and A300-600 conversion programmes, EFW has a strong market position for Airbus P to F conversions.

*Products.* In the field of P to F conversions, EADS specialises in the conversion of Airbus A300 and A310 passenger aircraft to cargo usage. EADS is building on this specialisation by adding versions such as, in 2001, the A310-300, and in 2002, the A300-600, to position itself for future upcoming conversion programmes. In addition to Airbus freighter conversions, EFW is also the supplier of Airbus passenger cabin floor panels for all Airbus models.

### 1.1.8 Investments

#### Dassault Aviation

EADS holds a 46.3% stake in Dassault Aviation – listed on the Marché Eurolist of Euronext Paris – along with Groupe Industriel Marcel Dassault (“GIMD”) 50.2% and free float 3.5%.

Dassault Aviation is a major player in the world market for military jet aircraft and business jets. Founded in 1945, Dassault Aviation has delivered more than 7,500 military and civil aircraft to purchasers in more than 75 countries. On the basis of its experience as designer and industrial architect

of complex systems, Dassault Aviation designs, develops and produces a range of military aircraft and business jets. In order to avoid any potential conflict between the military products of Dassault Aviation and EADS (Rafale and Eurofighter) and to facilitate a “Chinese wall” approach, EADS' Dassault Aviation shareholding is managed by Strategic Coordination, whereas the Eurofighter program is managed by EADS' Defence & Security Division.

## Military Aircraft

Dassault Aviation offers a wide expertise in the design and manufacture of latest generation military combat aircraft.

*Rafale.* The Rafale is a twin-engine, omni-role combat aircraft developed for both Air Force and Navy applications. According to government budgetary documents, France is considering the acquisition of 294 Rafale, 234 for the Air Force and 60 for the Navy, for a total program cost of €32.3 billion. 120 aircraft have already been ordered; of these, 82 are destined to the Air Force, and 38 to the Navy.

*Mirage 2000.* The Mirage 2000 family has reached in 2005 the end of its production phase. More than 600 Mirage 2000 aircraft have already been ordered, nearly half of them by foreign countries.

*nEUROn.* Dassault Aviation is the prime contractor for the development of Europe's UCAV (Unmanned Combat Air Vehicle) demonstrator, nEUROn. The program was open to European cooperation and five countries have decided to join it and share the skills of their aerospace industries. Agreements have been signed in 2005 with Sweden, Greece, Switzerland, Spain and Italy at Government levels and MoUs have been agreed upon on Saab, HAI, RUAG, EADS and Alenia at the industrial level.

The nEUROn demonstrator is scheduled to fly in 2011.

## Business Aircraft

Dassault Aviation offers a wide range of products at the top end of the business jet sector. Over 1,650 Falcon business jets have been delivered since the first Falcon 20 delivery in 1965. In-service Falcons currently operate in over 65 countries worldwide, filling corporate, VIP and government transportation roles. The family of Falcon jets currently includes four tri-jets: the Falcon 50EX, 900C, 900EX and 7X; the twin-engine Falcon 2000 and the Falcon 2000EX EASy.

The year 2005 was the best ever for the Falcon business jets with a total of 123 firm orders and a total backlog of more than 200 aircraft at year-end. Several significant milestones were also achieved: May saw the first flights of Falcon 7X and 900DX, and in 2005 the new 2000DX was launched.

## Dasa-Dornier Luftfahrt

DADC, which is 75% held by EADS, holds a 93.6% stake in Dornier GmbH, which in turn holds a 1.58% stake in the capital of Fairchild Dornier Luftfahrt Beteiligungs GmbH, which is the sole shareholder of Dornier Luftfahrt GmbH. Through this minority interest, EADS is not involved in any business decision regarding Dornier Luftfahrt.

## 1.1.9 Insurance

EADS Insurance Risk Management ("IRM"), centralised at EADS headquarters, is responsible for all corporate insurance activities and related protection for the Group. It includes identification, evaluation, prevention and protection of insurable risks. Insurance techniques are used to protect the assets and liabilities of EADS against financial consequences due to unexpected events. Harmonized insurance policies and standards are in place for all insurance risks underwritten by the Group.

An information and reporting system is in place to enable IRM, in close conjunction with insurance managers named by the EADS business Divisions and BUs, to respond to insurance related risks of the Group. EADS pursues an insurance risk management strategy that includes operating

procedures as well as policies regarding procurement and sales agreements. A systematic review and monitoring procedure of protections systems applicable to all EADS sites is in place, fostering comprehensive and timely identification of risks and related adjustments of insurance coverage.

EADS' insurance programs cover high risk (Core) and low risk (Non-Core) exposures.

**Core Insurance Policies** underwritten by IRM for the Group cover risks such as:

- Property Damage and Business Interruption;
- Aviation Third Party Liabilities including Product Liabilities;

## Information on EADS Activities

### 1.1 Presentation of the EADS Group

- Manufacturer's Aviation Hull Insurance up to the replacement value of each aircraft;
- Space Third Party Liabilities including Product Liabilities;
- Commercial General Liabilities including non-aviation and non-space Product Liabilities and risks related to environmental accidents; and
- Directors & Officers Liability.

Claims related to Property Damage are covered up to a limit of €2 billion per loss and €2 billion as an annual aggregate. Aviation Liability Coverage is provided up to a limit of €2 billion per loss, with an annual aggregate cap of €2 billion for product liability claims. Certain sub limits are applicable for Core Insurance Policies as outlined above.

**Non Core Insurance Policies** cover risks such as:

- Personal Accidents;
- Company Automobiles;
- Personal and property exposures during business trips; and
- Life insurance.

Insurance amounts for Non Core Insurance Lines are covered up to respective sums and replacement values.

EADS follows a policy of obtaining external insurance coverage for all main and individual risks that can be insured at reasonable rates, on sufficient terms and limits provided by the international insurance markets. All insurance policies are required to satisfy EADS' mandatory standards of insurance protection.

However, to be more independent from volatilities of the insurance markets, EADS uses the capabilities of a corporate-owned reinsurance captive with respect to the Property Damage, Business Interruption Programme and Aviation Insurance Programme. The captive is sufficiently capitalised and protected so as to ensure its ability to reimburse claims without limiting the scope of coverage of the original insurance policies and not additionally exposing financial assets of EADS.

The insurance industry is still undertaking efforts to reduce its overall exposure. These efforts include increasing premiums, raising deductible amounts and limiting the scope of coverage. Furthermore, the number of insurers underwriting industrial risks is still shrinking. No assurance can be given that EADS will be able to maintain its current levels of coverage on similar financial terms in the future.

#### 1.1.10 Legal and Arbitration Proceedings

EADS is involved in a number of claims and arbitrations that have arisen in the ordinary course of business. EADS believes that it has made adequate provisions to cover current or contemplated general and specific litigation risks.

At the end of 2002, a request for arbitration was filed against a subsidiary of EADS involved in the supply of equipment under a commercial contract that was completed several years ago. EADS believes it has strong defences, both procedural and of substance, to oppose the claim. At this stage of the procedure the financial risk cannot be assessed since, in June 2003, EADS was notified that the arbitration procedure was suspended at the request of the claimant. At the date of this document, such arbitration procedure is still suspended.

Following its unilateral withdrawal from the 1992 E.U.-U.S. Agreement on Trade in Large Civil Aircraft,

the U.S. lodged a request on 6th October 2004 to initiate settlement proceedings before the World Trade Organisation ("WTO"). In response, the E.U. launched a parallel WTO case against the U.S. in relation to its subsidization of Boeing. On 11th January 2005, the E.U. and the U.S. agreed to suspend their respective WTO cases for three months, with a view towards reaching a new agreement relating to public funding of large civil aircraft. However as of 11th April 2005, the parties had not been able to reach a satisfactory agreement. On 31st May 2005, the U.S. requested the establishment of a panel. At its meeting on 20th July 2005, the Dispute Settlement Body established the panels. On 17th October 2005, the panels were finally composed. On 22nd December 2005, the parties completed the formal fact finding process for the two proceedings (so-called ASCM Annex V). The E.U. filed a new panel request in its case on 20th January 2006. Then on 31st January 2006, the U.S. filed a new consultation

request on its case. These latest developments mean that the formal litigation process which was originally set to begin in March 2006 will now be set back to two to four months. Exact timing of the WTO litigation process is still to be agreed through negotiations between the U.S. and the E.U.

EADS is not aware of any other exceptional items or pending or threatened governmental, legal or arbitration proceedings during the last twelve months, that may have, or may have had in a recent period, a significant effect on the financial position, the activities or the results of EADS or the Group taken as a whole, except as stated above.

EADS recognises provisions for litigation and claims when (i) it has a present obligation from legal actions, governmental investigations, proceedings and other claims resulting from past events that are pending or may be instituted or asserted in the future against the Group, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle such obligation and (iii) a reliable estimate of the amount of such obligation can be made. For the amount provided for risk due to litigations and claims, see Part 1 “Notes to the Consolidated Financial Statements (IFRS)— Note 21(d): Other provisions”.

### 1.1.11 Incorporation by Reference

The following documents shall be deemed to be incorporated in and form part of this Registration Document:

- “Part 2/1.1 Presentation of the EADS Group” of the *Document de Référence* filed in French with the *Autorité des marchés financiers* on 1st April 2004 and filed in English with the Chamber of Commerce of Amsterdam; and
- “Part 2/1.1 Presentation of the Group” of the *Document de Référence* filed in French with the *Autorité des marchés financiers* on 19th April 2005 and filed in English with the Chamber of Commerce of Amsterdam.

Copies of the *Document de Référence* for the financial years ended 31st December 2003 and 31st December 2004 are available free of charge upon request in English, French, Spanish and German languages at the registered office of the Company and on [www.eads.com](http://www.eads.com). Copies of the financial statements referred to above are also available in English on [www.eads.com](http://www.eads.com) and for inspection at the Chamber of Commerce of Amsterdam.

## 1.2 Recent Developments

### **DaimlerChrysler and Lagardère have reduced their respective stakes in EADS by 7.5%**

On 4th April 2006, DaimlerChrysler and Lagardère announced the entry into simultaneous transactions aimed at reducing by 7.5% each their respective shareholdings in EADS.

DaimlerChrysler entered into a forward sale agreement of approximately 61 million EADS shares with a group of investment banks. The DaimlerChrysler Group indicated that it lent these shares to the banks in anticipation of the settlement of the forward sale.

Lagardère issued mandatory exchangeable bonds subscribed by IXIS Corporate & Investment Bank. In turn, IXIS Corporate & Investment Bank sold a large majority of the underlying shares to a group of French institutional investors. The EADS shares deliverable at the maturity of the bonds will represent a maximum of 7.5% of the share capital of EADS, or approximately 61 million EADS shares. These transactions have not impacted the balance of control between the core shareholders in EADS' corporate governance as set forth in the shareholder agreements described in Section 3.3.2.

### **EADS and BAE Systems enter into early stages of a discussion on the potential disposal of BAE Systems' 20 percent share in Airbus**

On 7th April 2006, EADS confirmed that it was entering into the very early stages of a discussion on the potential disposal of BAE Systems' 20 percent stake in Airbus.

EADS believes that increasing its stake in Airbus holds the potential of simplifying Airbus governance. EADS is fully prepared to move ahead constructively.

The initiation of discussions with BAE Systems does not represent an exercise of the put option held by BAE Systems in relation to its 20% stake in Airbus. EADS intends to work

diligently together with BAE Systems towards establishing a value for this 20% stake that is fair to both parties. The schedule of the discussions cannot be anticipated and there can be no certainty as to their outcome.

### **Spanish Ministry of Interior Selects the EC135 for its Police Forces**

On 17th March 2006, the Spanish Government announced the launch of an acquisition programme for the modernisation of its security forces. Under this programme, the Spanish Ministry of Interior intends to acquire 51 EC135 helicopters from Eurocopter in order to modernize the Guardia Civil's and the Cuerpo Nacional de Policía's existing helicopter fleets within the next eight years. Eurocopter España will carry out the EC135's final assembly activities, develop and install the highly innovative mission-specific equipment, and execute the concluding ground and flight tests. To this end, an assembly line for the EC135 will be established in Albacete at the local Eurocopter España site.

### **Successful Integration of LFK into MBDA Completed**

On 28th February 2006, the integration of LFK GmbH into the European missile systems group MBDA received clearance from the European Commission and the German Ministry of Economics and Technology. The legal formalities in connection with this operation were also successfully completed. MBDA's new German component will retain LFK GmbH's legal name and MBDA's brand. It will operate under principles of operation and processes mirroring those of MBDA while servicing Germany, Europe's third largest missile market.

### **A300 / A310 Final Assembly to be Phased Out by July 2007**

On 7th March 2006 Airbus announced that the A300/A310's final assembly will progressively be phased out. This



announcement follows more than 35 years of successful marketing and production of Airbus' original aircraft programme. The A300/A310 programme has achieved a total of 821 orders, and 802 aircraft had been delivered by the end of January 2006. The order backlog comprises A300 freighter aircraft to be delivered to FedEx, UPS and Galaxy Airlines. The last A300-600 aircraft on order will be delivered in July 2007. Airbus plans to offer new freighter versions of current aircraft once the A300/A310 programme has ended.

During the last two years, approximately 150 Airbus employees produced roughly one aircraft per month on the A300/A310's final assembly line. All employees involved in the A300/A310 production will be offered new positions in other current or future programmes.

### U.S. Government Orders Helicopters to Support Homeland Security Missions

On 26th February 2006, EADS North America announced that the U.S. Department of Homeland Security Customs and Border Protection had ordered 10 Light Sign Cutter EC120 helicopters from American Eurocopter, an EADS North America BU. This represents the first such order pursuant to a contract entered into with the Department of Homeland Security, and it could involve as many as 55 helicopters, with a potential total value of up to U.S.\$75 million. American Eurocopter will produce the Department of Homeland Security Customs and Border Protection's EC120s at American Eurocopter's new Columbus, Mississippi facility.

The Department of Homeland Security Customs and Border Protection is to receive its first EC120 in June for deployment on America's southwest border with Mexico. In order to meet this challenging schedule, three EC120s already are in production. The remaining aircraft will be delivered at the rate of one helicopter every 30 days.

### Indian Airlines Signs Contract For 43 Airbus A320 Family Aircraft

On 20th February, 2006, Indian Airlines Ltd, India's leading airline, signed a contract for 43 Airbus A320 family aircraft. Indian Airlines Ltd. has ordered 43 Airbus A320 Family aircraft, comprising twenty A319s, four A320s and nineteen A321s. The contract represents the first commitment from an Indian carrier for the Airbus A321 aircraft, marking a significant breakthrough for EADS.



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# 2

## Corporate Social Responsibility

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<b>2.1 Business Ethics</b>	<b>p. 63</b>	<b>2.4 Human Resources: Employer – Employee Relationship</b>	<b>p. 82</b>
2.1.1 Proper Business Practices	p. 63	2.4.1 Workforce Information and Organisation of Work	p. 82
2.1.2 Compliance with Law Regarding all EADS' Activities	p. 65	2.4.2 Human Resources Organisation	p. 83
2.1.3 Corporate Governance Standards	p. 67	2.4.3 Human Resources Policies and performances	p. 84
<b>2.2 Sustainable Growth</b>	<b>p. 69</b>	<b>2.5 Corporate Citizenship</b>	<b>p. 92</b>
2.2.1 Product Quality and Customer Satisfaction	p. 69	2.5.1 Maintaining an Open Dialogue with EADS' Stakeholders	p. 92
2.2.2 Sustaining and Protecting Innovation	p. 71	2.5.2 Encompassing Community Interests in EADS' Global Strategy	p. 93
2.2.3 Supplier Management: Fostering a Mutually Beneficial Relationship with EADS' Suppliers	p. 74		
<b>2.3 Environmental Care</b>	<b>p. 78</b>		
2.3.1 Policy	p. 78		
2.3.2 Organisation	p. 78		
2.3.3 Performance and Best Practices	p. 79		

EADS is a global aerospace and defence company driven by the ambition to set the standard for its industry. Setting the benchmark in the sector implies long-term value creation and recognition of the Group's corporate social and ethical responsibility. As such, Group strategy envisages a sustainable balance between economic performance, consideration of stakeholders' interests and respect for the environment.

EADS' corporate social responsibility ("CSR") approach is based on the Group's nature, strategy and activities. For example, its long-term vision is driven by product specificities, such as their average lifecycle of over 30 years. Furthermore, the EADS Group has been created from the integration of existing businesses. The Corporate functions are there to determine guidelines and to give support to the BUs that are responsible for the day to day business. They also ensure dialogue with their direct stakeholders.

As a defence company, EADS Group specifically acknowledges its responsibility in selling defence products and providing services to nations that contribute to their security during peace time. EADS delivers products and integrated solutions pursuant to customer specification. These products have to comply with the applicable laws put in place by the responsible government (arms export laws, embargo rules and Ottawa agreements, anticorruption policy).

In 2004, EADS undertook to work towards demonstrating its corporate social responsibility in the conduct of its day-to-day business. In order to achieve this vision, EADS has established a CSR policy that identifies areas in which the whole Group aims continually to improve.

EADS' vision is in line with internationally recognized frameworks such as the Universal Declaration of Human Rights, International Labour Organization's Declaration and OECD Convention. EADS, as a signatory of the United Nations Global Compact, is committed to promoting, within its sphere of influence, the application of fundamental values regarding Human Rights, Labour, Environment and Anticorruption. EADS is willing to report on the Group's success in implementing its sustainable development strategy.

The EADS CSR policy embraces its way forward on key CSR items which are common for the entire Group. These relate as far as possible to existing best practices, as well as to the EADS code of ethics (the "**Code of Ethics**") which is designed to give guidance for operational managers and employees.

EADS realises that in addition to the implementation of good practices regarding CSR within its businesses, reporting on these practices is becoming more and more important for its stakeholders. EADS therefore started to report on its activities in the field of CSR in the Annual Report 2002. In the 2002 and 2003 reports mainly qualitative information was included, due to the fact that CSR practices are mostly carried out within the BUs and their respective sites and up to this point no centralized reporting procedure had been implemented. The 2002 report sets out the existing practices at Group level, whereas the 2003 report already contained a first qualitative analysis of the existing best practices amongst EADS' BUs.

In early 2004, EADS' top management decided to launch an extensive project in order gradually to provide more detailed and quantitative reporting on CSR at Group level, and to ensure that existing best practices in certain BUs were communicated within the Group.

In its annual report 2004, EADS published its first detailed CSR reporting, including EADS CSR policies and organisations. A number of quantitative and qualitative Key Performance Indicators ("**KPI**"), based upon the Global Reporting Initiative ("**GRI**"), the Global Compact principles and the French Nouvelles Régulations Économiques and tailored to EADS' business were defined for the 2004 report. These KPIs were not included in full in the 2004 report, as EADS chose an incremental approach, which envisaged adding KPIs every year to EADS' publications, as data became available and its quality could be controlled. This 2005 report thus incorporates additional KPIs.

## EADS CSR policies

EADS policies have been designed to support and implement EADS' long-term vision and strategy in terms of CSR and are supported by an internal control system in areas such

as compliance with OECD rules, export restrictions, IP protection, research and development etc. (See "Part 1 / 2.1.5 Internal Control and Risk Management Systems"). They give guidance for day-to-day business and are in accordance with EADS' underlying values.

### CSR Policies on Domains Identified as Most Relevant for EADS

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

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

## EADS Code of Ethics

At the time of the creation of EADS, the Code of Ethics was established and communicated to the employees of the Group. This Code of Ethics aimed at emphasizing values that were key success factors for achieving an efficient integration of different companies into one group. In 2005, more than four years after the creation of EADS, in light of its establishment as a market leader in many of its businesses, and considering the evolving legal environment relating to business ethics, EADS updated the Code of Ethics in order to reflect practices recommended by various codes and laws and to align with best practice.

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

The Code of Ethics serves as a core EADS business guideline in an architecture of documents in which the code also refers to pre-existing, detailed policies as laid out in the EADS Corporate Handbook as well as division or BU specific

policies and processes. It is based on EADS' underlying values and fully in line with international recognised standards as laid out in charters, declarations or guidelines, such as the Universal declaration of Human Rights.

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

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



## Corporate Social Responsibility

- “Living in our communities” describes the ways in which EADS contributes to the life and development of communities where it operates.

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

These principles will be monitored, in particular through entrusting an EADS Ethics Committee with compliance responsibility in ethics matters.

The Code of Ethics describes the missions of the Ethics Committee set up by the EADS Board of Directors. In particular, the Ethics Committee will offer guidance to the EADS Chairmen, the Board of Directors and its Committees, the CEOs, COOs and Executive Committee, as

well as management at large regarding all ethical questions. The Committee will submit at least annually a report to the EADS Board of Directors with respect to each year’s activities. It will also implement appropriate coordination with the compliance functions of EADS and its divisions.

In 2006, all employees will be sensitised through a systematic information campaign, aimed at raising the awareness of the importance of ethical business conduct and emphasizing underlying values. The text of the enhanced EADS Code of Ethics is available on the Internet at [www.eads.com](http://www.eads.com).

## 2.1 Business Ethics

### 2.1.1 Proper Business Practices

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

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

#### 2.1.1.1 Policy

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

#### 2.1.1.2 Organisation

EADS has implemented a detailed corporate policy, the *Foreign Trade Rules*, which applies to all international operations of the Group entities, and which is intended to detect and prevent bribery and unfair dealing in international sales. This policy has been published in EADS’ Corporate Handbook, which is available to all employees through the company intranet.

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

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

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

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

# Corporate Social Responsibility

## 2.1 Business Ethics

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

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

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

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

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

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

### 2.1.1.3 Performance and Best Practices

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

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

In addition, the Group has developed a comprehensive **training policy** so as to disseminate an "awareness" culture within all BUs. All employees dealing with international business attend such training sessions. In 2005, around 42 training sessions took place across EADS, sometimes with the attendance of third parties (prosecutors, representatives of international bodies, lawyers, etc.), in order to communicate and explain the Group's corporate values and policies to all concerned. This represents a very significant increase compared to 2004, which tends to demonstrate that the dissemination of a compliance culture is a key element of EADS' management system.

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

The Group's ICOs meet periodically to share concerns and best practices. An annual **ICO Conference** has been organised since 2003 involving more than 100 people involved in foreign trade business and operations. The ICO Conference of December 2005 was held in Paris with 114

participants from 22 BUs. Senior Executives presented and discussed issues focusing on business ethics at large.

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

In relation with its international businesses, EADS uses third parties, such as consultants and international business partners in order to provide appropriate assistance and

expertise to BUs on current or potential business for EADS and/or promote EADS products or services in various countries. The contractual arrangements for such services are governed by internal rules and policies that describe the entire contractual process, from the selection of the partner to the implementation and execution of the agreed service. In order to ensure that the rules are understood and strictly applied, consultant and service providers agreement are audited. The purpose of these audits is to check the substantiation of the contractual duties delivered by the third party in exchange of its remuneration. The table below presents information concerning the percentage of consultant files audited in each of the past three years. None of the audits have revealed any material deficiencies.

	2005	2004	2003
Consultant files audited	96%	93.10%	Not available
Number of ICO information letters issued	3	3	2
Number of training sessions held by ICO	52	20	12

Scope: EADS

## 2.1.2 Compliance with Law Regarding all EADS' Activities

Compliance and verification of compliance with all the laws and regulations of the countries where the Group does business is a must at EADS. Rapid changes in the industry and the overall global environment constantly present new legal or regulatory requirements and ethical standards which call for robust internal controls in the field of legal compliance.

Against this background, the Group monitors overall compliance with all laws relating to its business activities in addition to having a special focus on compliance with export control regulations.

*companies comply with all import and export control regulations that govern the exports and imports of commodities, technical data and technical support.*

- EADS always obtains export licenses and other government approvals prior to exporting products and technology controlled by governments or the EU.
- EADS screens new customers and suppliers to ensure that they do not do banned business. ”

### The overall compliance with the Law programme

Amongst the various areas of the law which require constant monitoring, it is worth mentioning a few examples that are of particular importance to EADS although the list is only indicative. Examples of this permanent monitoring process are: compliance with the laws and regulations governing competition, protection of the environment, public sector procurement and accounting and financial reporting.

#### 2.1.2.1 Policy (law and export control)

- “ - EADS is committed to complying with antitrust and competition as well as humanitarian law, when applicable, in all of its activities and throughout the Group.
- EADS is also committed to complying with all applicable legislation relating to foreign trade. EADS Group

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

### Compliance with Export Control Laws and Regulations

Because of the particular nature of the industries that it is active in, EADS has put a special focus on the overall area of compliance with export controls regulations both in its commercial aviation businesses and as a company dealing with defence and dual-use products as well. Being a high-technology company both in the civil and in the defence environment means, for example, that EADS' know-how in the form of products or services and all relating technical data is subject to a wide range of export controls laws and regulations. Keeping the Company's status of "reliable importer/exporter" is the constant ambition of Company's export control specialists and employees; thus EADS strictly follows highly regulated processes to control the final destination of its products and technologies.

As each of the countries from which EADS exports defence products has specific laws and regulations on arms export control, the organisation of compliance is tailored to the related countries within EADS. BUs have appointed Export control officers and allowed dedicated resources to implement export control compliance procedures as close as possible to people working with export controlled products (commodities, software, technical data...).

National Export control officers were appointed at EADS Group level. Depending on the country from which exports take place, either the country Export control officer is legally responsible for compliance and thus has a strong centralisation and decisional role or the final responsibility lies in the hand of each of the legal entities and its local Export control officer. In this later case, the national Export control officer ensures coordination and provides the Headquarters and the BUs with expertise and advice.

The national Export control officers organise regularly within their respective countries meetings and conferences with their export control officers' national network, to share knowledge and expertise on compliance requirements

and procedures. Training is also provided to export control staff as well as to other relevant functions as marketing and procurement, creating awareness for the importance of export control issues. The EADS' national export officers decided in January 2006 to go further in strengthening the Group compliance processes by proposing a detailed EADS Group export control policy.

The same applies to import regulations as EADS is a major importer as well and has a continued globalization approach.

In parallel to import/export aspects, there are also specific requirements dealing with access to and dissemination of restricted or classified information whether it is for national security reasons or other customer driven requirements especially in the field of defence, which are strictly followed by EADS, based on Group specific policies.

Separate policies are enacted in order to protect EADS data and overall Company proprietary and confidential information.

### 2.1.2.2 Organisation

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

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

The Corporate Secretary with the support of Legal Affairs departments also play an essential role in the setting up and administration of (i) EADS Corporate Governance procedures and (ii) legal documentation underlying delegation of powers



and responsibilities and defining the EADS management and the internal control environment.

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

**2.1.2.3 Performance and Best Practices**

Although each EADS BU and location faces different compliance challenges, they are extremely vigilant in monitoring legal risks. They constantly ensure that regulations are applied and track any infringement risks so as to prevent them. This is based on three basic processes:

- **Preventing compliance risk** is key to the overall EADS approach. Such a preventive approach is based on the addition of Company policies and deep cultural values

supported by solid infrastructure for compliance, training initiatives and general employee awareness actions as well.

- **Identification of compliance risks** results from systematic monitoring of key compliance risks in each of the BUs.
- Whatever the source of the compliance risk may be, **EADS takes responsibility** for finding the facts and analyzing the applicable laws; measures are then taken to deal with the situation in a proactive manner.

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

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

Scope: EADS.

**2.1.3 Corporate Governance Standards**

Compliance with Corporate Governance standards is an area of focus at EADS. Governance practices are developed and monitored to fulfil the Board responsibility to shareholders to oversee the work of management in the conduct of the Company’s business and to seek to serve the long-term interest of shareholders.

In 2004, the EADS Board of Directors continued to uphold the driving principle of maximizing shareholder value and conformity with applicable law and the Corporate

Governance principles in the countries relevant for the Company, while also enhancing its focus on Corporate Governance best practices.

The EADS management structure has proved efficient and well adapted to fulfilling its commitment to a sustainable and balanced relationship with stakeholders. Ensuring development of employee and supplier relationships, as well as ensuring customer satisfaction, remain a foundation of EADS’ success, operations and culture.

## Corporate Social Responsibility

### 2.1 Business Ethics

#### 2.1.3.1 Policy

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

#### 2.1.3.2 Organisation

See “Part 1 / Chapter 2 Corporate Governance”.

## 2.2 Sustainable Growth

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

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

### 2.2.1 Product Quality and Customer Satisfaction

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

network of BU operational level experts to ensure that the Quality and Operational Excellence Programme ("QOEP") is tuned directly to the needs, priorities and maturity of each BU. He also Represents EADS in relevant Quality, Standards and Regulatory bodies at both National and International level commensurate with the status of EADS as a global aerospace and defence company.

#### 2.2.1.1 Policy

*“ – EADS is fully committed to achieving the highest levels of customer satisfaction, driving continuous improvements in the quality of its products, processes and people and deploying the most demanding Quality Management Systems.*

*– EADS actively seeks key customer feedback through a structured Group-wide process of Customer Reviews. ”*

#### 2.2.1.2 Organisation

The Chief Quality Officer ("CQO") is in charge of stimulating, coaching and supporting the BUs to implement continual improvements in operational level OTOQD performance and to maintain and improve customer confidence in EADS. In particular, he chairs an EADS Quality Council with senior level representatives from each BU to agree actions and priorities and to drive OTOQD deployment in all BUs and animates supports and drives a

#### 2.2.1.3 Performance and Best Practices

In the second half of 2004, a major initiative was launched to deliver enhanced customer confidence and satisfaction through driving operational improvements in those industrial processes which contribute to achieving OTOQD of products and services to end customers. In 2005, this "Quality and Operational Excellence Programme" (QOEP) was deployed through EADS BUs.

This Programme acts on five key areas for improvement:

##### Customer Confidence

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

The goal is to measure the level of customer confidence, which is more important than satisfaction in determining its loyalty. EADS aims to measure (and to improve

continuously) the relationships between the Group and each of its customers. Improvement plans result from these interviews, and the interviewer is responsible for reporting the progress of these plans to the interviewee.

In 2005, five reviews were completed (MTA, DS Spain, Eurocopter, Seca, and Socata), three reviews being in action planning phase (MTA, DS Spain and Eurocopter). Six BUs entered the Design and Review phase, mainly for Defence customers.

More complex CRps for Defence customers were also prepared in 2005: they are conducted at national level rather than at BU level, governments' procurement activities being by nature cross BUs. The Spanish review was performed in 2005; the French review was launched in 2005 and will last until mid-2006. The German and British reviews will be launched in 2006.

### Supply Chain Processes

More than 70% of EADS products are sourced from outside suppliers. If a supplier fails to deliver On Time and On Quality, so does EADS. Managing the Supply Chain through the traditional contractual relationship is no longer sufficient. Upstream visibility is needed into the internal processes of each supplier to enable a timely reaction to their deficiencies (as well as to EADS' own deficiencies which could impair a supplier's performance). In 2005, EADS deployed Supply Chain Diagnostics (two to three weeks assessments) in several BUs, in order to assess what they already identified as their weakest points in supply chain management, and derive "90 Day Action Plans".

In 2005, ten Diagnostics were conducted in seven BUs: Defence Electronics, Military Air Systems, Astrium, Defence and Communication Systems, LFK, Seca and MTA.

These assessments resulted in action plans at three BUs (one in Defence Electronics and Seca, two at MTA). Implementation started in 2005 (improvement plans are under preparation in the other BUs).

### DRIVER and EADS Black Belt

Until 2005, EADS "only" expected that each manager would improve the operational performance of his / her team; EADS now equips managers with an "Improvement Methodology and Toolkit". This is the purpose of the "DRIVER"

methodology defined in 2005, along with the complete training syllabus (more than 50 training modules and 30 tools). DRIVER is specific to EADS. The corresponding training can be delivered in the format of "EADS Green Belt" (one week) or "EADS Black Belt" (four weeks). To be recognised as Qualified Improvers, EADS Black Belts must complete, on top of their training, an improvement project that can cover for six months and deliver measured benefits in terms of On Time On Quality Performance, costs savings or both.

In 2005, 97 EADS Black Belts were trained at seven sessions held within MTA, Eurocopter, Defence Electronics, Airbus, Seca, LFK and Socata. Six employees were qualified, by completing the improvement project and sixteen were EADS Green Belt trained.

### Quality Gates

All EADS processes are made of steps: from bidding to delivery of demonstrators for a development process; from machining to final assembly for a manufacturing process. Each step completion must be carefully checked before passing the "product" down to the next step. Otherwise problems may be transferred to a place where they will be more difficult and costly to solve. Based on this simple observation, a methodology was already in place in some BUs, calling for an internal written contract between the two parties (upstream and downstream) at a "Gate" between two important steps of a development or a production process.

The quality gate system was further extended in 2005. While Airbus had already started the implementation of quality gate before 2005, Eurocopter implemented its quality gate in 2005.

### High-Level Metrics

In order to measure the results of the improvement actions at BU level in terms of Customer Confidence and OTOQ Delivery, a set of high level metrics has been defined in 2005 and begun to be implemented.

The three generic metrics are:

- the Customer Confidence index (resulting from the Customer Review Process described previously);
- the On Time On Quality index for Development programmes; and

- the On Time On Quality index for Physical deliverables.

The use of these Metrics is under the custody of the BU heads.

In 2005, normalised HLM have been defined in five BUs (MTA, Defence Electronics, Astrium, Eurocopter and Military Air Systems) and are operational in two of them (MTA and Defence Electronics).

## 2.2.2 Sustaining and Protecting Innovation

### 2.2.2.1 Innovation Strategy

Innovation is one of the key areas EADS is focusing on as growth drivers for the future. EADS has established various programmes of cooperation with universities and scientific organisations to develop jointly new technologies, and is continuously evaluating new opportunities to extend partnerships in this area.

#### Policy

*“EADS’ innovation strategy aims at increasing competitiveness through continuously improving quality of services and products as well as efficiency of processes. The two main pillars of EADS’ corporate strategy are the EADS Research & Technology (“R&T”) Network and the Corporate Research Centre (“CRC”).”*

#### Organisation

Due to the specific organisation of EADS in BUs, the company’s strategy has both decentralised and centralised components. All R&D and about 80% of the R&T activities are decentralised. The responsibility of each of the BUs is to ensure the development of products and services that meet customer needs and to offer competitive solutions in line with market expectations.

The centralized efforts are represented by both the EADS R&T Network and the CRC.

The R&T Network coordinates the shared research and technology activities, which involve several BUs and the CRC. The Network is structured around technology domains, which are of common interest, such as Materials and Structures, Electronics, Navigation and Control as well as Image Processing. For each of the domains, a group of R&T experts is formed by representatives of the entities interested in shared work in that domain, thereby ensuring

an effective transversal coordination. The Network sets up a common R&T programme and facilitates the circulation of information and research results within the Group. The steering of the EADS R&T Network and the decision making process are performed in a collective way between all participants, inducing useful “bottom-up” and “top-down” exchanges between the experts and management. Additional centralised R&T coordination is accomplished by the team of the Chief technology Officer between the EADS BUs, the CRC and headquarters functions to manage relations with external stakeholders, companies, industrial organisations, research laboratories and universities for example, for joint research projects.

The CRC conducts applied research and supports the R&T Network by providing a platform for the exchange of know-how and by highlighting possible synergies throughout the Group. The CRC has two main sites in Paris and Munich and employs approximately 600 people including doctorates and university interns. It maintains research proximity centres in Toulouse, Nantes (opened in 2005) and Hamburg to support the knowledge transfer to BUs in these locations. A liaison office is operating in Moscow, which facilitates relations with Russian scientific institutes. EADS is also preparing the creation of a centre in Spain and an extension in other countries (i.e., Singapore, Qatar), through laboratories or offices to develop cooperation and to take advantage of competencies wherever they are.

The CRC and the EADS R&T community in the BUs maintains and expands established academic research partnerships with leading universities and high-tech engineering schools by employing thesis students, post-graduate interns and doctorate candidates as well as by contracting specific research projects.

See also “Part I / 1.1 Management’s Discussion and Analysis of Financial Condition and Results of Operations”.



#### Performance and Best Practices

Continuous innovation has been the basis of EADS' success in the past, and the Group is convinced that this will be even more important in the future. Innovation cycles are shortening and new competitors are emerging in all fields of EADS business. To be leading the markets in the future, EADS will always need to be ahead with innovative solutions.

Technological innovation programmes are managed in conjunction with the EADS R&T Network and the EADS CRC as well as through a strong network of top experts in the BUs. EADS aims to make better use of available resources by interacting even more with external scientific and applied research organisations. Such cooperation

allows EADS to leverage the resources available in these organisations, which in turn benefit from EADS' systems knowledge.

In 2005, the Group invested €614 million in R&T alone (€510 million in 2004) to develop technologies for future products, services and processes. On the one hand, the CRC, which focuses on applied research and long-term strategic technologies, spent €93 million of that amount on research programmes in the areas of Materials and Structures, Acoustics, Microsystems and Electronics, Systems Engineering and Information Management Techniques. On the other hand, synergy between the BUs was developed by the EADS R&T Network through 136 shared projects, representing €90 million.

	2005		2004		2003	
	In € bn	In percentage of revenues	In € bn	In percentage of revenues	In € bn	In percentage of revenues
Self-financed R&D*	2.1	6.1%	2.1	6.6%	2.2	7.3%
R&T expenses	0.61	1.8%	0.51	1.6%	0.45	1.5%

Scope: EADS.

(\*) See "Part 1/1.1.3.4 Research and Development Expenses".

#### Advanced Technology Initiative

Activities of the Advanced Technology Initiative ("ATI"), launched in 2004, continued throughout 2005 as a cross-company drive to increase efficiency in innovation and R&T. ATI involves benchmarking and forecasting of technologies and gives answers to the questions: What is the scope of technologies inside EADS? How good is EADS at these technologies compared to the competition? What will be key technologies in the future? External expertise is included to provide perspective and vision. Based on the findings, action plans are developed to improve the global technology strategy by correcting any deficiencies and by optimising the allocation of resources. ATI involves today more than 200 technical managers, many of them being currently active in the R&T Network and in the CRC. While it is continuing in 2006, ATI has already led to recommendations for managing the technological risks and for ensuring technological leadership.

#### EADS Corporate Foundation for Research

Activities of the EADS Corporate Foundation for Research (Fondation d'entreprise) in France aim to improve the company's links to public research laboratories and universities by promoting multidisciplinary research in aerospace technologies, and establishing exchanges between researchers in government, private industry and higher education research institutes.

In 2005, the Foundation financed 17 doctorate and nine post-doctorate grants as well as 10 research projects.

A number of incentive activities are carried out, such as awarding the "Irène Joliot-Curie Prize for Women in Research", which rewards actions encouraging the presence of women in scientific and technical fields of study, or promoting the position of women in the research community in France, and highlighting exemplary professional contributions to public and private research.

The "AéroJeunes Day" is held every year to promote science and technology among young people. In 2005, students from several schools in France were invited to spend a day at the Paris Air Show. The "Envol Recherche" Day, the major event for the EADS Company Foundation, allows

the Foundation to showcase its different activities and to sum up the achievements of the year. The beneficiaries of grants and funding are invited to present the state of their work.

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

### Bauhaus Luftfahrt (aviation research centre)

In 2005, EADS and the government of the German state of Bavaria joined forces with three German aerospace companies to create the aviation research centre, Bauhaus Luftfahrt, a centre for creative and interdisciplinary research activities in the field of aeronautics. Headquartered in Munich, the registered association sees itself as a think tank for a new type of visionary, unconventional aviation research. The centre will focus on systems and concepts for the future, and on evaluation of integrated systems in comprehensive, interdisciplinary research activities.

### Academic partnerships

EADS regards its relationship with the academic world as a priority and is developing this with vigour by reinforcing its cooperation with academic laboratories through deeper and more targeted relationships. In 2005, the CRC France has therefore established a common structure with several French top-level academic partners. INNO'CAMPUS was inaugurated at the renowned École Normale Supérieure (ENS) de Cachan, near Paris, to intensify an existing partnership by co-locating some EADS researchers at laboratories of the ENS, by students using CRC facilities and by jointly conducted seminars and workshops in the structures simulation and structures behaviour domains. In addition, a professorship in "Advanced Computational Structural Mechanics" was established at the ENS, with financing supplied by the EADS Corporate Foundation for Research.

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

thermoplastic composites technologies and to develop specific non-destructive testing methods.

### 2.2.2.2 Protecting Innovation: Intellectual Property

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

#### Policy

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

#### Organisation

The general management of IP in EADS is conducted through an IP committee led by Headquarters. Executives responsible for IP at the main subsidiaries upset on this committee.

Every year, a meeting of the network of those responsible for IP at the entities of the Group is held to explain the EADS' IP strategy and policy. EADS also promotes training about IP matters. For example, there is one day about IP included in the Corporate Business Academy ("CBA") training for the experts.

Each of the subsidiary companies of the Group owns the IP which is specific to its particular business and has been generated by this subsidiary. Where IP is of common interest throughout the Group, the subsidiary that generated it may issue a license allowing its use elsewhere (respecting the interests of the other shareholders when appropriate). EADS also owns IP directly or under license agreements with its subsidiaries. EADS centralises and coordinates the

Group’s IP portfolio, participates with the subsidiaries in its management and promotes licensing of common IP between the subsidiaries. EADS controls the protection of its IP made in the strategic countries.

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

### Performance and Best Practices

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

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

In 2005, the EADS IP portfolio was comprised of approximately 4,900 inventions (approximately 4,400 in 2004), which are covered by over 15,000 patents throughout the world.

	31st December 2005	31st December 2004
New inventions filed (some of which covered by several patents)	586	521
EADS patents portfolio	15,036	13,515

Scope: EADS.

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

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

*– EADS is committed to long term relationships and partnerships with its suppliers, in particular in the engagement in the development of technological know-how.”*

### 2.2.3.1 Policy

- “ – Suppliers represent a high proportion of the value of EADS’ products, and play an important part in customer satisfaction. As such, EADS endeavours to integrate them fully in its ethical way of doing business.
- Fostering a mutually beneficial relationship with suppliers, EADS’ sourcing principles require all suppliers to be responsible and to implement its standards and requirements across all levels of the supply chain.

### 2.2.3.2 Organisation

#### Sourcing Strategy

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

- **Procurement Marketing and Global Sourcing** aims to identify the best potential suppliers worldwide and

to evaluate them with regard to their capabilities and their certifications. Procurement marketing is becoming increasingly important as EADS targets new global supply markets to support Global Industrial Development;

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

### Sourcing network

Each EADS Division and BU has its own sourcing function.

The five EADS divisions' Chief Procurement Officers compose the Chief Procurement Officers Council ("CPOC")

which is chaired by the EADS Chief Procurement Officer. This Council was created in 2005; it is responsible for implementing the EADS Sourcing Strategy.

**The Procurement Directors Board** (existing since 2000), which is composed of the Divisions and BUs Procurement Directors and of members of the Corporate Sourcing team remains a platform for exchange of information, experience and for diffusion of the EADS sourcing strategy.

One of the first decisions taken by the CPOC in early 2006 was to create a Sourcing CSR network, led by EADS Corporate Sourcing with the objective of formalising the EADS CSR Sourcing Policy, in compliance with the EADS Code of Ethics. The Sourcing CSR network will organise flow-down of the CSR Sourcing Policy to suppliers and organise related-supplier performance measurement.

In addition, the EADS Executive Committee decided mid 2005 to implement a new structure within the Sourcing organisation in order to support the Globalisation Development of the Group. This new structure named Global Sourcing network includes Country Sourcing Offices ("CSOs") starting with China, Russia and India. More will be created where EADS sourcing volume happens to grow.

These CSOs will take an active role in supporting fulfilment of CSR standards by EADS suppliers based in their regions.

### 2.2.3.3 Performances and Best Practices

#### Sourcing context in 2005

With two thirds of its revenues sourced from external suppliers, efficient and effective supplier relationship management is a key factor for EADS' success. For this, EADS concentrates on its major suppliers. EADS' top 50 suppliers already account for 43% of the sourcing volume and the top 250 suppliers account for 75%.

Complex systems and equipment account for 45% of EADS procurement. Structures, material and product-related services also account for 36%, while non-product related material accounts for 21%.

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



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

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

Most of EADS' suppliers are currently located in the E.U. (approximately 75%) and North America (23%), regions in which social, economical and environmental practices are well regulated by applicable norms and laws. EADS Sourcing contractual terms request that these suppliers shall comply at any time with laws and regulations on economical, environmental and social standards and anticipate or at least make their best endeavour to anticipate forthcoming changes in these standards.

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

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

### **Influence of the Global Sourcing**

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

### **Sourcing Contractual terms related to CSR**

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

The various CSR aspects are already considered through EADS Sourcing Risk and Opportunities Management ("ROM") which recommends appropriate contractual guidelines for key contractual chapters. These guidelines are published into the EADS Sourcing Information Tool which explains the principles for drafting contracts, disclaims the typical contractual clause and gives practical comments for the use of the buyer. For each domain, the requirements are contractually cascaded on to sub-tier suppliers.

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

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



## Key Performance Indicators

All figures below have been calculated using new €-\$ exchange rates. Figures for previous years have been recalculated accordingly (2005: 1.2441; 2004: 1.2438; and 2003: 1.1304).

<b>Sourcing volume: breakdown by country for top 10 countries</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>In percentage of total sourcing volume</b>	<b>In percentage of total sourcing volume</b>	<b>In percentage of total sourcing volume</b>
France	31%	31%	30%
Germany	22%	23%	25%
U.S.	22%	21%	21%
U.K.	12%	12%	12%
Spain	4%	4%	4%
Italy	1%	2%	2%
Netherlands	1%	1%	2%
Belgium	1%	1%	1%
Canada	1%	1%	1%
Switzerland	1%	1%	1%

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

<b>Importance of sourcing outside of EADS</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>In percentage of revenues</b>	<b>In percentage of revenues</b>	<b>In percentage of revenues</b>
	70%	63%	65%

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

<b>Purchasing breakdown by Geography</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>In percentage of total purchase</b>	<b>In percentage of total purchase</b>	<b>In percentage of total purchase</b>
Europe	75%	77%	74%
North America	23%	21%	24%
Rest of the World*	2%	2%	2%

Scope: EADS.

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

## 2.3 Environmental Care

EADS' environmental policy embraces all phases of a product life cycle, from conception and design, manufacturing and product support, including environmental impact of its sites. It seeks to ensure that each of its BUs complies with the laws and regulations of each country

in which it operates, EADS being subject to numerous E.U., national, regional and local environmental laws and regulations concerning emissions into the environment, discharges to surface and sub-surface water and the disposal and treatment of waste materials.

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### 2.3.1 Policy

#### ***“Minimizing environmental impacts of EADS’ activities***

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

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

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

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### 2.3.2 Organisation

The management of environmental aspects of Group operations is traditionally the responsibility of the BUs and sites. Each of EADS’ businesses is strictly controlled and audited by authorities, in respect of manufacturing processes and product certification. Furthermore, customers include environmental criteria in their specifications.

The environmental reporting is currently managed by the CQO. However, an enhanced coordination at corporate level is needed. Some steps have been undertaken in order to implement a periodic follow up on the Group’s environment performance and to facilitate exchanges of best practices and dissemination of relevant European and national information

within the Group. These are based on networks that already exist from the founding companies of EADS. In order to enhance effectiveness of the environmental policy and provide visibility, EADS plans to further use dedicated networks focusing either on process or on products. This approach needs to be overall validated.

EADS is participating in environmental working groups of industry organisations such as the GIFAS in France, Bundesverband der Deutschen Luft und Raumfahrtindustrie (“**BDLI**”) in Germany and the SBAC in the U.K. For example, the Environment Committee of GIFAS is chaired by an Airbus representative. EADS and Eurocopter

also sit in this committee. In 2005, the committee defined and implemented a legal and regulatory watch system to the benefit of the profession in France.

At European level, the Environmental Committee of ASD (Aeronautic Space and Defence Industries Association of Europe) is chaired by Airbus.

On a worldwide basis, the environmental committee of ICCAIA (International Coordination Council for Aerospace Industries Association), in which ASD is the European member, is chaired by Airbus since 2004 and up to 2007.

## 2.3.3 Performance and Best Practices

### Sites certification and registration

EADS encourages environmental certification of its industrial sites. As of 31st December 2005, 29 sites were either ISO 14001 certified or EMAS registered, representing 42% of the total workforce of EADS.

Airbus has set the goal of achieving the international environmental standard ISO 14001 certification for its complete organisation by the end of 2006. As of the end of 2005, only two European sites, Hamburg and Toulouse remained to be certified to ISO 14001, as scheduled in Airbus' implementation plan. These projects should be accomplished by April 2006, bringing the former ratio from 42% to 64%. Site compliance is only part of overall corporate certification. With this continuous improvement process, Airbus is strengthening its environmental expertise throughout all sites and functions, expanding its site-dedicated environmental network. Environmental experts are charged with reviewing and improving all environmental aspects of Airbus' operations across all functions. These experts play a decisive role in the certification process, including the "environmental analysis" of Airbus products. Launched in 2006, product certification is the other fundamental element that will lead to Airbus' overall corporate certification.

In December 2005, EADS Space Transportation also decided to target an ISO 14001 certification of its French site by the end of 2006, following successful re-certification of its German sites in 2005.

The same applies to ASTRIUM : re-certification of German and UK sites in 2005, certification of the French site (Toulouse) scheduled for April 2006.

### Site and Product Oriented Environmental Management System (SPOEMS)

While classical ISO 14001 addresses only SITE-related certification, Airbus has joined forces with several other organisations (Chamber of Commerce, National Trade Associations, EADS Germany...) to set the rules for an approach to environmental certification of both SITES and PRODUCTS along their lifecycle (production sites being only one aspect of this lifecycle). This approach will help Airbus, among other organisations, to systematically assess the environmental impact of its products along their entire life, and to target improvements at the earliest design stage. SPOEMS was selected by the European Union under its "LIFE" Programme.

### Recycling of waste

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

### Climate Change

EADS operations have a very low impact in terms of greenhouse gas emissions. In the main, EADS' energy use results from heating and lighting requirements (offices, administration buildings, production facilities etc).

A potential risk from climate change to EADS operations comes from the ever-increasing pressure on energy costs.

## Corporate Social Responsibility

### 2.3 Environmental Care

However, both from a cost and an operational efficiency viewpoint the Group recognises that it has a responsibility to reduce energy usage where possible and so EADS views this as an opportunity to make continuous improvements.

In 2005, EADS was a participating Company to the G8 **Climate Change Panel**, led by Tony Blair, for the post Kyoto Protocol actions. In this perspective, the GMES (Global Monitoring for Environment and Security) initiative anticipates the definition of a satellite-based system allowing the monitoring of global greenhouse gas emissions.

As a further example, **ATR** also applies a “green policy” in the conception of its aircraft. ATR aircraft are recognised as the most fuel-efficient aircraft in their category thanks to their advanced engine technology and highly efficient propellers. Low levels of engine emissions are essentially the result of low fuel consumption. On routes with an operating radius of 200 nautical miles, ATR 72-500 fuel consumption per passenger is up to 15% lower than for a typical European car. The associated gaseous emissions per passengers in terms of CO (carbon monoxide) are 15 times lower than from a car and comparable to those of a train. As far as nitrous oxides are concerned, the ATR is three times less pollutant than a car and 40% less than a train. All these factors make the ATR an environmentally friendly aircraft that contributes less to the greenhouse effect than most other forms of transport.

The alignment of environmental targets (CO<sub>2</sub> emissions reduction) with economical targets (energy consumption reduction) drives many local initiatives such as the installation of energy efficient motor drives at **Astrium UK** or the improvement of efficiency of the satellite assembly clean rooms by Astrium in Germany. Other examples include the installation of a 98.6 Kwatt-peak of photovoltaic solar power connected to the public electricity system on the roof of a new office building at Airbus Spain.

#### Restriction of Hazardous Substances (RoHS) directive

An important issue addressed in 2005 concerned the product life cycle with the transition to lead-free electronics for aerospace. This was in particular driven by the European RoHS directive, which restricts the use of six hazardous

materials (Lead, hexavalent chromium, Mercury, cadmium, PBB and PBDE) in electric and electronic applications and thus leads to necessary substitutions. These substitutions are difficult for aerospace activities due to the length of the aerospace products life cycle and stringent safety certifications; the introduction of substitute substances requiring additional testing and certification. As a consequence, the European Commission has accepted that “equipment containing such targeted substances specifically designed to be installed in airplanes, boats or other means of transport are out of the scope of the RoHS Directive”. The defence products are also out of the scope of RoHS.

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

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

Dedicated IT tools are starting being implemented (Defence site of ULM) to trace and manage hazardous substances, such as lead, from supply to disposal.

#### Plane dismantling and recycling

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

So far, old planes were stored in hangars or dismantled in a non-environmentally friendly way. Airbus has created a consortium to dismantle and recycle old planes, with EADS CRC, Sogerma, Sita (a waste management company) and the *Préfecture des Hautes-Pyrénées*. This €2.4 million project, called PAMELA (Process for Advanced Management of End of Life Aircraft), was approved in 2005. A special centre will be set up at Tarbes Airport, where procedures for the decommissioning and recycling of aircraft in safe and environmentally responsible conditions will be tested. The aim of this project is to demonstrate that 85 – 95% of aircraft components can

be recycled, reused and recovered. It will also enable EADS to anticipate further environmental European Regulations on waste recycling. The first dismantled aircraft will be an Airbus A300 from a Turkish company. Its dismantling will last 20 months. Pamela is also expected to create up to 100 jobs over the next few years.

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

	2005
ISO 14001 certification/EMAS registration - List of sites covered by a certificate	29
Number of sites covered by EU-ETS	11
Total CO <sub>2</sub> emissions (in ton)	309,000
Total CO <sub>2</sub> emissions declared under EU ETS (in ton)	153,000
Direct Energy use segmented by primary source (in MWh)	2,850,000
Volatile Organic Compound Emissions (in ton)	3,500
Total water use (in m <sup>3</sup> )	4,100,000
Total water discharge volumes (in m <sup>3</sup> )	2,100,000
Total hazardous waste production (in ton)	40,400
Total Non-hazardous waste production (in ton)	65,000

Scope: covering 80% of EADS staff, 2005 figures generated on available material, definitions need harmonisation between the various countries in which EADS operates. Except for the number of sites, all figures are rounded.



## 2.4 Human Resources: Employer – Employee Relationship

The key mission of the Group HR function is to ensure that EADS, as an integrated Group, attracts, develops and retains a world-class workforce. It also facilitates continuous integration and internationalisation of the Group and the building of a common spirit across the Group's organisational and operational structures. Continuous improvement of health and safety in the workplace is also a major priority of the EADS Group.

The implementation of HR Group policies is based on several major principles such as compliance with the equal opportunity principle, making the workplace as safe as possible, sustaining significant efforts in the field of training and maintaining a proactive social dialogue.

The global EADS standards and principles for social, ethical and legal issues are defined in the Code of Ethics and in the International framework agreement (“**IFA**”) signed with the European Works Council in June 2005.

### 2.4.1 Workforce Information and Organisation of Work

As of 31st December 2005, the EADS workforce was composed of 113,210 employees. It has globally increased by 2.3% compared to 2004, with higher rates of increase registered at Airbus and Eurocopter.

In 2005, 98% of the workforce was permanent employees. Depending on country and hierarchy level, the average working time is between 35 and 40 hours a week.

In 2005, 7,843 employees worldwide entered employment with EADS (4,952 in 2004), of which 4,018 were employed by Airbus. At the same time, 5,471 employees left EADS (4,108 in 2004).

In total, 97% of EADS' total workforce is located in Europe on more than 80 industrial sites.

#### Workforce by Division and by Geography

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

The figures for 2004 and 2003 have been adjusted in order to reflect the new organisational structure which occurred in 2005; “Other businesses” includes EADS Sogerma, EADS Socata and ATR.

<b>EADS Employees by Division</b>	<b>31st December 2005</b>	<b>31st December 2004</b>	<b>31st December 2003</b>
Airbus	54,721	51,959	49,520
Defence and Security Systems	23,237	24,268	24,844
Eurocopter	12,755	11,850	11,543
Military Transport Aircraft	3,976	3,856	3,428
Space	10,985	11,053	11,991
HQ, Research Centre and other businesses	7,536	7,676	7,809
<b>Total EADS</b>	<b>113,210</b>	<b>110,662</b>	<b>109,135</b>

EADS employees by geographic region	31st December 2005		31st December 2004		31st December 2003	
	Amount	In percentage	Amount	In percentage	Amount	In percentage
France	43,286	38.2%	42,807	38.7%	42,858	39.3%
Germany	41,438	36.6%	40,325	36.4%	41,103	37.7%
Spain	8,710	7.7%	8,435	7.6%	8,063	7.4%
U.K.	14,297	12.6%	14,045	12.7%	13,125	12.0%
Italy	729	0.7%	734	0.7%	682	0.6%
U.S.	1,877**	1.7%	2,166	2.0%	1,851***	1.7%
Other Countries*	2,873	2.5%	2,150	1.9%	1,453****	1.3%
<b>Total EADS</b>	<b>113,210</b>	<b>100%</b>	<b>110,662</b>	<b>100.0%</b>	<b>109,135</b>	<b>100.0%</b>

(\*) The "Other countries" figure includes employees from 13 other countries.  
 (\*\*) This decrease is mostly due to the disposal of EADS Telecom and EADS Aeroframe services.  
 (\*\*\*) The figure previously reported (2,554) corresponded to Americas (U.S., Canada, Mexico, and Brazil).  
 (\*\*\*\*) The figure previously reported (750) did not include Canada, Mexico, and Brazil.

Part Time Contracts	2005	2004
	In percentage	In percentage
France	4%	3.7%
Germany	3.2%	3.2%
Spain	0.0%	0.02%
U.K.	1.4%	0.82%
U.S.	0.1%	0.0%
Other countries	NA	1.3%
<b>Total EADS</b>	<b>3.2%</b>	<b>2.87%</b>

## 2.4.2 Human Resources Organisation

EADS has developed an innovative HR management, defining a European policy while taking into account national legislation.

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

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

At corporate level, four support departments make up the global EADS HR management: Planning and Policy, Compensation and Benefits, Corporate Business Academy ("CBA") and Management Development. They are responsible for:

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

## 2.4.3 Human Resources Policies and performances

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

#### Policy

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

#### Organisation and Performances

The management of Health and Safety is essentially dealt with at site level accordingly to applicable national regulations.

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

As an example of the Group performances, the incidence and severity rates of reportable accidents (work related accidents causing an absence of more than 3 days) recorded at Airbus, noticeably decreased from 2004 to 2005, while aircraft deliveries increased.

Airbus	2005	2004
Incidence rate	12.61	13.18
Severity rate	0.184	0.236

Regarding the risk of avian flu, from the last term of 2005 onwards, the health and safety coordinators by BUs and countries have been mobilized at the corporate level to follow the World Health Organisation recommendations and to deliver the necessary advices to expatriates and travelers.

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

- “ – Given the specific nature of the facilities of the EADS Group which are used for many activities relating to national defence and sensitive civil markets, the conditions governing access to and movements inside the plants and facilities are specified in ministerial orders and are based on two main principles:
  - Access to a plant is subject to prior authorisation by the company; and
  - Entry into restricted and sensitive areas is regulated in accordance with national and company regulations.”

#### Organisation and Performance

EADS has set up a security policy to improve the security of its employees and to protect EADS expertise. A Security Committee has been set up. It is formed of Security leaders in each country who supervise local security officer at BU and plant level, and deal with national security authorities and European security organisations.

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

A global security action initiated in 2005 is being developed concerning the safety of EADS employees in high risk countries and the security of EADS offices abroad.

In terms of IT security, appropriate steps were taken to audit processes and improve the level of awareness of EADS employees to the security of the information systems. Given the sensitive nature of the Group’s business, employees are able to work in compliance with group security policies wherever and whenever business needs their attention in implementing, for instance, secured nomad IT solutions facilitating mobility and business reactivity with confidence.

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

#### Policy

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

#### Performance and Best Practices

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

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

The following examples illustrate the implementation of these principles:

#### Nationalities

EADS counts more than 15 nationalities among its employees worldwide.

#### Gender Diversity

The percentage of women employed in 2005 in the Group is about 15%. It increased slightly in 2005 compared to 2004, the increase in the percentage of women was registered in the divisions where the rates were the lowest.

As of 31st December 2005, 12% of EADS executives and senior managers were women.

Women at EADS	31st December 2005	31st December 2004
	In percentage	In percentage
Airbus	12.7%	12.4%
Defence and Security Systems	18.7%	18.9%
Eurocopter	12.6%	12.3%
Military Transport Aircraft	12.6%	12.1%
Space	19.2%	19.4%
HQ, Research Centre and other businesses	15.7%	15.4%
<b>Total EADS</b>	<b>15%</b>	<b>14.8%</b>

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

From 1st January 2004, BUs have been asked every quarter to report on their success in recruiting women. The CBA has also defined training objectives to be consistent with the recruitment target.

In 2005, the recruitment of women was 20.5% of total recruitment (18.8% in 2004), and so reached the Group’s

target. The Defence & Security Systems and Eurocopter divisions as well as EADS research centre are leading the way in this field.

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

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

## Corporate Social Responsibility

### 2.4 Human Resources: Employer - Employee Relationship

In France, EADS sponsored the **Irène Joliot-Curie prize** for the second time in 2005 (See “2.2.2 Sustaining and Protecting Innovation – Innovation Chapter”).

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

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

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

Finally, in keeping with this overall strategy, a meeting with participants of the **IIWE** (International Institute for Women in Engineering) took place in July 2005 at the EADS Paris headquarters, the EADS ST plant in les Mureaux and at Eurocopter in la Courneuve. 80 young women took part in workshops on diversity and scientific vocations.

EADS was also a strategic partner to the first “**Women’s forum for the economy and society**”. This forum, which took place in October 2005, was created to promote the vision, influence and impact of women on all the major economic and social issues. It gives women an opportunity to express their views, ideas and solutions. It aims at defining directions for progress in the world of tomorrow.

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

Finally, in 2005, EADS France and Airbus, Astrium, Eurocopter, Matra Electronique, and EADS Space Transportation received the “Label Egalité” from the French Ministry of professional equality. This label is awarded to companies that can show a pro-active policy regarding women employment and development.

#### Age diversity

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

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



Number of employees per age group	31st December 2005	31st December 2004
18-25	7,179	6,812
26-35	27,303	26,081
36-45	37,127	37,544
46-55	35,358	34,565
56-65	11,229	10,984
<b>Total EADS</b>	<b>118,196</b>	<b>115,986</b>

Consolidated companies are counted 100%.

Average age of employees	31st December 2005	31st December 2004
France	41.4	41.6
Germany	42.2	42.1
Spain	42.4	42.9
U.K.	41.9	41.7
U.S.	43.9	42.4
Other Countries	40.8	39.5
<b>Total EADS</b>	<b>41.9</b>	<b>41.9</b>

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

#### Policy

- “ – EADS ensures that working time, including overtime, is regulated so as to support a healthy balance between employees’ work and their private life.
- EADS strives to develop the skills and know-how of its employees, for their individual benefit as well as for its collective success. The EADS personnel development policy aims at:
- Supporting training to enhance performance and quality of work;
  - Encouraging cross-border and cross functional teamwork, in the frame of intra-Group mobility;
  - Assessing and recognising individual technical expertise via a global scheme developed throughout the Group; and
  - Associating personnel to the performances of the Group and its subsidiaries through a success sharing scheme.”

#### Performance and Best Practices

Astrium and Eurocopter have implemented knowledge transfer programmes, which seek to ensure knowledge transfer on the occasion of employees’ retirement.

#### Recruitment and retaining of talent

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

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

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

## Corporate Social Responsibility

### 2.4 Human Resources: Employer - Employee Relationship

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

Such partnerships also demonstrate EADS' long-term commitment to building and maintaining a lasting relationship with a key universities or networks such as Pegasus (Partnership of a European Group of Aeronautics and Space Universities).

Specific recruitment and **development programmes** have also been created internally to contribute to the ongoing development of EADS' workforce. In addition to the Corporate Young Manager Programme, which is available for young graduates, EADS Development Programmes (Financial Management Development Programme and Advanced Marketing and Sales Programme) are offered to young professionals who are interested in key fields such as sales and finance.

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

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

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

#### Development and training

Personnel development starts at EADS on the first day of recruitment. From then on, several formal or informal meetings are organised at BU or corporate level, for example the Welcome Event.

Contributing to the induction and motivation of newly recruited employees, EADS performs one "**EADS welcome event**" each year, welcoming around 400 newcomers from all entities. Hosted by the CEOs, these events enable EADS employees to discover the diversity of the Group, to fully experience its global dimension from the moment they arrive and to initiate their own network.

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

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

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

EADS created the **CBA** in 2000 as its Corporate University to develop the current executives and prepare the next generation of executives, as well as optimising the global investment in training within EADS. CBA was recognised as the most innovative Corporate University in the world by its peers. CBA has developed and run several activities in Asia and the United States in 2005 in order to cope with the new expertise requested at Group level.

In 2005, the Centre for Executive Education of EADS, in Villepreux close to Bordeaux has hosted more than 1,000 guests for its first year. This centre has been designed to provide facilities to the whole Group for top management meetings, training sessions and executive seminars.

At EADS, training is considered a joint responsibility. Employees are expected to be proactive in their personal development, and line managers must identify training needs.

<b>Training</b>	<b>2005</b>	<b>2004</b>
Hours of training per year	2,500,000*	1,200,000
Average hours of training/employee	23	11,8
Number of trained people	75,000	65,000
Training expenses in % of wages	~3%**	~3%**

(\*) Hours have been recorded according to the various definitions of training per country.  
(\*\*) Estimate EADS Group.

<b>Average length of service</b>	<b>2005</b>	<b>2004</b>
	<b>In years</b>	<b>In years</b>
Airbus	13.4	13.6
Military Transport Aircraft	20.8	21.5
Eurocopter	14.2	15.1
Defence and Security Systems	16.7	16.5
Space	15	14.9
HQ, Research Centre and other businesses	13.3	13
<b>Total EADS</b>	<b>14.6</b>	<b>14.7</b>

<b>Breakdown of employees per qualification</b>	<b>2005</b>	<b>2004</b>
	<b>In percentage</b>	<b>In percentage</b>
University (4 years and more)	24	23.9
University (up to 3 years)	18.9	19.1
Higher vocational school	11.3	9.5
Vocational school	41.5	41.4
General school	4.3	6.1

### Mobility

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

As of 31st December 2005, EADS had 1,800 expatriate employees, 75% of them working in one of the European countries.

### Remuneration

The total wage bill amounted to €8.46 billion in 2005 (€7.9 billion in 2004), including employee and salary cost, success and profit sharing, restructuring cost, pensions and other costs.

### Success Sharing Practices

EADS' reward schemes policy is strongly linked to the achievement of individual and Company objectives, both for each division and for the overall Group. For the sixth year in 2005, a stock option plan has been established for the

senior management of the group (See “Part 1 / 2.3.3 Options Granted to Employees”) and employees were offered shares at favourable conditions at the time of the public offering and listing of EADS (See “Part 1 / 2.3.2 Employee Share Offering”).

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

#### 2.4.3.5 Employee Relations: A Proactive Dialogue

##### Policy

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

##### Performance and Best Practices

###### European Works Council

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

- The EWC meets twice a year for information and consultation on evolution of the business and the prospects of the Group.
- The EWC also comprises an economic committee which meets four times a year and focuses on economic matters.

- European sub-committees have also been set up in various BUs such as Airbus, Eurocopter, EADS SPACE and EADS DS and replicate the EADS EWC model.
- National committees in France, Germany, and Spain enable dialogue on national matters, under the subsidiarity principle.

##### International Framework Agreement

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

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

The principles contained in the International Framework Agreement are aligned with the general rules of ILO conventions, the OECD Guidelines for Multinational Enterprises and the principles laid down by the UN Global Compact, which EADS signed in October 2003, and they are in compliance with the Code of Ethics.

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

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

### Overview of collective agreements signed with Unions since 2000

- EADS Group Agreements were concluded on the following matters:
  - Establishment of a European Works Council <sup>(1)</sup>;
  - Linking personnel to the business performance of the Group <sup>(2)</sup>;
  - International Framework Agreement.
- In Germany, Tariff Agreements were concluded in relation to such matters as holiday pay, Christmas bonus, sick pay, and early retirement, as well as agreements with the works council on success sharing, insurance package, company pension, early retirement deferred compensation, suggestion scheme, family and work life balance, disabled people.
- In France, Group Agreements were concluded in relation to such matters as employment issues, union's rights and social dialogue, pre-retirement, management of second half of career, health cost coverage, French national committee and unions coordinators, professional equality and diversity, working time.
- In Spain, a collective bargaining agreement includes social benefits such as aid to children of employees, collective transport, retirement, life insurance, loans, prize at retirement, canteens, aids to worker association.

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

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

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



## 2.5 Corporate Citizenship

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

#### 2.5.1.1 Policy

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

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

#### 2.5.1.2 Organisation

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

However, EADS has implemented a donation guidelines (under the responsibility of EADS Corporate Secretary) as well as sponsoring guidelines (under the responsibility of EADS Corporate Communications) which set out criteria for granting sponsoring/donation to projects while leaving certain independence to the BUs.

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

#### 2.5.1.3 Performance and Best Practices

In 2005, EADS contributed more than €2 million to social, cultural, sport or educational projects.

EADS contributes to humanitarian activities by donating and giving material or providing air transportation capacities when necessary. EADS has a long-term partnership with “Aviation sans Frontières” in France, Germany and Spain, a humanitarian organisation which provides air transport for, in particular, seriously ill children.

Through its support for “Wings of Help”, EADS brought some 95 tons of relief supplies to the afflicted region of Pakistan following a devastating earthquake. EADS offered its help in boosting the airlift capability so that the injured could be evacuated.

In 2005, the EADS Group actively participated in the global relief support following the Hurricane Katrina along the Gulf Coast. This humanitarian support was the result of a cooperative effort involving EADS, its companies the U.S. and European governments, and employees around the world.

In total, EADS, its subsidiaries and the Group employees donated nearly \$2 million for the victims battered by Hurricanes Katrina and Rita along the Gulf Coast in August and September 2005, and responded actively to the urgent needs by providing air transportation capacities.

Immediately after the passage of the hurricane Katrina, Eurocopter helicopters EC 120 and EC 135, rescued stranded victims and transported medical personnel, and delivered supplies along the Gulf Coast. The Eurocopter HH-65 Dolphin helicopter rescued some 4,400 victims during approximately 1,480 hours of operational mission.

Within days of the disaster, Airbus sent its A300-600ST Beluga from Europe to the United States to transport 23 tons of blanket, cots, tents and other material donated by the French and the British governments and to carry to Mississippi a 12-ton EADS-built mobile rescue station supplied by the German Army and government. Approximately 150 patients a day were treated in the EADS TransHospital location.

## 2.5.2 Encompassing Community Interests in EADS' Global Strategy

### 2.5.2.1 Policy

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

### 2.5.2.2 Organisation

In 2005, EADS put in place a new organisation in order to design, coordinate and implement the international industrial development of EADS. This followed the conclusions of the GIS (Global Industrial Strategy) study which had been launched in 2004.

The EADS Executive Committee has created as of November 2005 a new corporate function, GID (Global Industrial Development), focusing on the implementation of the

Group's global industrial footprint. This will complement the EADS International function, which continues to lead the marketing process and to develop the regional strategies.

The main missions of the newly created GID function are to be EADS' industrial architect in the countries where it is expanding and to drive the global industrial expansion, which includes not only manufacturing projects but also engineering, R&T and services initiatives, as well as structural partnerships. Countries within GID's scope include all countries outside home countries (France, Germany, Spain, U.K.).

GID will act as a driving force to nurture new projects and to support BUs. It will also act as a moderator to orchestrate actions across the Group and the countries, and to preserve all EADS stakeholders' long-term interests (shareholders, customers, suppliers, employees). In particular, GID will promote the Group Corporate Social Responsibility in countries where EADS is present.

### 2.5.2.3 Performance and Best Practices

EADS shall report in a timely fashion on the definition of industrial action plans in targeted countries, and on the implementation of industrial projects in these countries.



# 3

## General Description of the Company and its Share Capital

<b>3.1 General Description of the Company</b>	<b>p. 96</b>	<b>3.3 Shareholdings and Voting Rights</b>	<b>p. 111</b>
3.1.1 Commercial and Corporate Names, Seat and Registered Office	p. 96	3.3.1 Shareholding Structure	p. 111
3.1.2 Legal Form	p. 96	3.3.2 Relationships with Principal Shareholders	p. 113
3.1.3 Governing Law — Dutch Regulations	p. 96	3.3.3 Form of Shares	p. 119
3.1.4 Date of Incorporation and Duration of the Company	p. 101	3.3.4 Changes in the Shareholding of the Company Since its Incorporation	p. 119
3.1.5 Objects of the Company	p. 101	3.3.5 Persons Exercising Control over the Company	p. 121
3.1.6 Commercial and Companies Registry	p. 101	3.3.6 Simplified Group Structure Chart	p. 121
3.1.7 Inspection of Corporate Documents	p. 101	3.3.7 Purchase by the Company of its Own Shares	p. 123
3.1.8 Financial Year	p. 101	<b>3.4 Dividends</b>	<b>p. 128</b>
3.1.9 Allocation and Distribution of Income	p. 102	3.4.1 Dividends and Cash Distributions Paid Since the Incorporation of the Company	p. 128
3.1.10 General Meetings	p. 102	3.4.2 Dividend Policy of EADS	p. 128
3.1.11 Disclosure of Holdings	p. 104	3.4.3 Unclaimed Dividends	p. 128
3.1.12 Mandatory Tender Offers	p. 106	3.4.4 Taxation	p. 129
<b>3.2 General Description of the Share Capital</b>	<b>p. 108</b>	<b>3.5 Annual Securities Disclosure Report</b>	<b>p. 131</b>
3.2.1 Modification of Share Capital or Rights Attaching to the Shares	p. 108		
3.2.2 Issued Share Capital	p. 108		
3.2.3 Authorised Share Capital	p. 109		
3.2.4 Securities Granting Access to the Company's Capital	p. 109		
3.2.5 Changes in the Issued Share Capital Since Incorporation of the Company	p. 110		

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## 3.1 General Description of the Company

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### 3.1.1 Commercial and Corporate Names, Seat and Registered Office

**Commercial Name:** EADS

**Seat (*statutaire zetel*):** Amsterdam

**Corporate Name:** European Aeronautic Defence and Space Company EADS N.V.

**Tel:** +31.20.655.48.00

**Fax:** +31.20.655.48.01

**Registered Office:** Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, the Netherlands

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### 3.1.2 Legal Form

The Company is a public limited liability company (*naamloze vennootschap*) organised under the laws of the Netherlands.

As a company operating worldwide, EADS is subject to, and operates under, the laws of each country in which it conducts business.

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### 3.1.3 Governing Law — Dutch Regulations

The Company is governed by the laws of the Netherlands, in particular by Book 2 of the Dutch Civil Code and by its Articles of Association (the “**Articles of Association**”). The shares of the Company have been admitted for trading at the Traded but Not Listed Segment of Euronext Amsterdam.

The Company is subject to various legal provisions of the Dutch Securities Market Supervision Act 1995 (*Wet toezicht effectenverkeer 1995*) (the “**WTE**”). These are summarised below.

Pursuant to section 47a of the WTE, certain persons discharging managerial responsibilities within the Company and, where applicable, persons closely associated with them (together “**Insiders**”, as defined below) must notify the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten* (the “**AFM**”)) of all transactions conducted on their own account relating to shares of the Company, or to derivatives or other financial instruments linked to them. In principle, failure to comply with the

requirements of the WTE is a criminal offence punishable by criminal and administrative penalties in the Netherlands.

In particular, “**Insiders**” include (i) members of the Board of Directors and the Executive Committee of the Company, (ii) certain senior executives, (iii) persons closely associated with any person mentioned under categories (i) and (ii) (including their spouses, dependent children and other relatives who have shared the same household), and (iv) legal entities, trusts or partnerships whose managerial responsibilities are discharged by any person referred to in point (i), (ii) or (iii) or which are directly or indirectly controlled by such a person, or that have been set up for the benefit of such a person, or whose economic interests are substantially equivalent to those of such person.

Pursuant to Dutch law, EADS has adopted specific internal insider trading rules (the “**Insider Trading Rules**”), in order to ensure the confidentiality of sensitive company information, the transparency of EADS share trading and the compliance of EADS share trading rules with share



trading regulations applicable in the Netherlands, France, Germany and Spain (for examples of Dutch, German, Spanish and French disclosure requirements applicable to members of the Board of Directors and the Executive Committee, see “3.1.11 Disclosure of Holdings-Disclosure Requirements for Members of the Board of Directors and of the Executive Committee”). 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 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 1st January 2006 is available on the Company’s website.

Hans Peter Ring, Chief Operating Officer for Finance of EADS, was appointed Compliance Officer by the Board of Directors of EADS. The Compliance Officer is essentially responsible for the implementation of the Insider Trading Rules and for reporting to the AFM.

Pursuant to Article 47 paragraph 7 of the WTE, the Company has to maintain a list with all persons working for it by virtue of a labour relationship or otherwise, who may have access to inside information. Equivalent requirements exist under French, German and Spanish law.

In addition, given the fact that its shares are admitted for trading on a regulated market in France, Germany and Spain, the Company is subject to laws and regulations in these three jurisdictions. A summary of the main regulations applicable to the Company in relation to information to be made public in these three jurisdictions is set out below.

### 3.1.3.1 Ongoing Disclosure Obligations

#### Dutch Regulations

Pursuant to Article 1k of the Securities Markets Supervision Decree (*Besluit toezicht effectenverkeer*) (the “**Decree**”), resulting from the implementation of the EC Directive 2003/71 dated 4th November 2003, the Company may prepare a registration document, the purpose of which is to provide legal and financial information on the Company (shareholding, activities, management, recent events, possible

evolution and other financial information). In practice, the registration document of the Company may be used as a prospectus provided it is completed by a securities note and a summary approved by the AFM. Such registration document is filed for approval with the AFM and, once approved, is made available to the public.

Additionally, and pursuant to Article 6a of the Decree also resulting from the implementation of the EC Directive 2003/71, the Company is required to provide at least annually a list of certain corporate and financial documents or other information that it has published or made available to the public over the last 12 months and details of where these documents can be obtained (see “3.5 Annual Securities Disclosure Report”).

#### French Regulations

The *Autorité des marchés financiers* (the “**AMF**”) issued general regulations effective as from 24th November 2004 (the “**AMF General Regulations**”).

A foreign issuer must take all necessary measures to enable shareholders to manage their investments, and to exercise their rights. Pursuant to Articles 212-37 and 222-9 of the AMF General Regulations:

- (i) the Company is required to inform its shareholders of (a) all forthcoming shareholders’ meetings and of the various ways for them to exercise their voting rights; (b) payments of dividends; and (c) issues of new shares or subscriptions, allocations, renunciations, or conversions of shares;
- (ii) the Company is also required to (a) inform the public of any modifications in its shareholder structure compared to the latest published data; (b) publish any relevant information concerning its activities and results for the first half of its financial year within four months of the end of the first half of the financial year, (c) publish its annual accounts, and consolidated accounts and the management report, which report (or the most significant extracts thereof) must be translated into French, within six months of the end of the financial year; and (d) publish as soon as possible all modifications of the rights attached to each category of shares;
- (iii) the Company is required to inform the AMF in due time of any contemplated amendments of its Articles of Association; and

## General Description of the Company and its Share Capital

### 3.1 General Description of the Company

(iv) furthermore, the Company is required to provide simultaneously in France the same information as that given abroad.

#### German Regulations

Due to the listing of the Company's shares in the *amtlicher Markt* (specifically, in the sub-segment of the *amtlicher Markt, Prime Standard*) on the Frankfurt Stock Exchange, the Company is subject to the post-listing obligations described below. In addition, the Company is included in the selection index MDAX, the MidCap index of *Deutsche Börse AG*.

Pursuant to paragraph 65 of the German Stock Exchange Admissions Regulation (*Börsenzulassungs-Verordnung*), the Company is required to promptly make available its statement of annual accounts and its management report as soon as these have been produced, insofar as these are not published nationally. If the Company produces its own statement of annual accounts in addition to a consolidated one, both types must be made available. According to paragraph 62 of the Exchange Rules (*Börsenordnung*) of the Frankfurt Stock Exchange, the listing in the *Prime Standard* of the *amtlicher Markt* results in the further obligation of the Company to compile and publish consolidated annual accounts in accordance with the International Financial Reporting Standards ("IFRS") or the U.S.-Generally Accepted Accounting Principles ("U.S. GAAP") in the German and English languages.

In addition, the Company is required to publish an interim report pursuant to paragraph 40 of the German Stock Exchange Act (*Börsengesetz*). The interim report must be published within a period of two months after the end of the first six-month period of the Company's current fiscal year, in at least one German supra-regional mandatory stock exchange newspaper (*überregionales Börsenpflichtblatt*), the Federal Gazette (*Bundesanzeiger*) or as a printed newsletter that is available to the public free of charge upon request. The report must also be given to the stock exchange admissions authorities of those exchanges where the shares are officially listed.

Pursuant to paragraph 63 of the Exchange Rules of the Frankfurt Stock Exchange, the Company, being part of the *amtlicher Markt (Prime Standard)*, is required to publish

quarterly reports in the German and English language according to the same international accounting principles as the annual accounts.

Pursuant to paragraph 63 *et seq.* of the German Stock Exchange Admissions Regulation, the Company is required to inform the public and the stock exchange admissions authorities of certain developments or changes that affect the Company or its shares.

The Company is also obliged to inform the stock exchange admissions authorities about all material events arising from or affecting its legal situation. For that reason, all announcements concerning events that may be of interest to shareholders, such as the shareholders' meeting, announcements concerning determinations and payments of dividends, the issuance of new shares and the exercise of conversion, warrant and subscription rights, must be published in an official stock exchange newsletter. The Company is, furthermore, required to publish without delay all changes concerning rights that are connected with securities.

If the Company provides information to the stock exchanges in France and Spain and if such information could be relevant for the assessment of securities of the Company, then the Company has to publish at least equivalent information at the Frankfurt Stock Exchange in at least one German supra-regional mandatory stock exchange newspaper.

In addition, the Company is required as a result of its listing in the *amtlicher Markt (Prime Standard)*, to prepare a continuous update of a corporate action timetable at the beginning of each fiscal year, for at least the respective fiscal year, in the German and English languages. This timetable must include details about the most important events of the Company. The Company is also required to hold a meeting of analysts at least once a year in addition to the press conference regarding the balance sheet.

Save for certain exemptions, the Company has to apply for admission of shares issued at a later date to the *amtlicher Markt* of the Frankfurt Stock Exchange, see paragraph 69 of the German Stock Exchange Admissions Regulation.

### Spanish Regulations

Pursuant to the Ministerial Order of 18th January 1991, the Company is required to file with the *Comisión Nacional del Mercado de Valores* (the “**CNMV**”) and with the relevant Spanish stock exchange authorities (who will disclose it to the market), relevant information regarding its financial situation for each half year and which is communicated, for each 30th June and 31st December, no later than the following 1st September and 1st March respectively. If after this communication the annual accounts are produced by the Board of Directors and they do not conform with the half-yearly information for 31st December, the Board of Directors must disclose this inconsistency in the following ten trading days. An exemption from the obligation to publish quarterly information of a financial or economic nature has been obtained from the CNMV.

According to Article 35 of the Spanish Securities Market Act 24/1988, of 28th July 1988, as amended (the “**Spanish Securities Act**”) and Order EHA/3050/2004 of 15th September, the Company must provide detailed information, including, without limitation, the number and amount of the transactions, in relation to every transaction carried out with any related party in the half-yearly information which the Company is required to file with the *Comisión Nacional del Mercado de Valores* (the “**CNMV**”) and the Spanish Stock Exchanges, without prejudice to information to be included in the annual corporate governance report to be filed with the CNMV on an annual basis (the “**Annual Corporate Governance report**” pursuant to the Ministry of Economy Order 3722/2003 dated 26th December 2003 (the “**Ministerial Order**”).

Pursuant to the Spanish Securities Act, the Company has to provide detailed information about transactions carried out with (i) directors which are outside the ordinary activity of the Company or which are not in market conditions; and (ii) any related party transaction which are material due to their amount or for an adequate understanding of the public economic information.

EADS discloses such information in its Registration Document.

### 3.1.3.2 Disclosure of Specific Information

#### French Regulations

Pursuant to Article 222-3 I of the AMF General Regulations, any inside information must be disclosed to the public. Pursuant to Article 621-1 of the AMF General Regulations, inside information means precise information that has not been publicly disclosed and that concerns, directly or indirectly, one or more issuers or financial instruments, and that, if publicly disclosed, would be susceptible to having a noticeable influence on the price of the financial instruments themselves or on the price of financial instruments linked therewith.

Pursuant to Article 222-11 of the AMF General Regulations, the AMF may request that the Company or any third party disclose any information relevant in respect of the investors’ protection and of the functioning of the market. If such requests are not satisfied, the AMF may itself disclose such information.

Pursuant to Articles 222-3 to 222-7 of the AMF General Regulations, the party responsible for the disclosure of inside information may decide, under its own responsibility, to defer its disclosure if (i) it is able to ensure confidentiality of such information; and (ii) it considers that (a) should the party be the Company, confidentiality is necessary to preserve its legitimate interests, provided that such deferral does not run the risk of misleading the public and that the Company monitors access to such information; or (b) should the party be the Company or a third party, confidentiality is temporarily necessary to achieve completion of a transaction.

#### German Regulations

Pursuant to paragraph 15 of the German Securities Trading Act (*Wertpapierhandelsgesetz*), the Company is required to publish, without undue delay, any inside information which directly concerns the Company, in particular but not limited to information within the Company’s sphere of activity, and which has the potential to materially influence the Company’s share price (ad hoc disclosure requirement).

Prior to publication, the Company must disclose such information to the German Federal Financial Supervisory

## General Description of the Company and its Share Capital

### 3.1 General Description of the Company

Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) as well as to the board of directors of the organised markets on which the Company's shares are admitted to trading.

Due to the listing in *amtlicher Markt (Prime Standard)*, the Company is also required to publish this information in the English language (paragraph 66 of the Exchange Rules (*Börsenordnung*) of the Frankfurt Stock Exchange).

In accordance with the implementation into German law of the EC Directive 2003/6/EC dated 28th January 2003 on insider dealing and market manipulation (*Market Abuse Directive*), the Company is obliged to decide whether it is exempt from the ad hoc disclosure requirement in cases where its legitimate interests would require a postponement of the disclosure.

The Company and any person acting for or on behalf of the Company are also subject to the ad hoc disclosure requirement if they have communicated inside information to another person or allowed another person access to inside information, unless that other person is subject to a legal duty of confidentiality.

Pursuant to paragraph 15b of the German Securities Trading Act the Company must establish and maintain a list with all persons who have access to inside information.

#### Spanish Regulations

Pursuant to Article 82 of the Spanish Securities Act, the Company is required to make public, as soon as possible, any fact or decision that may substantially affect the quotation of its shares. Any such relevant event must be notified to the CNMV as quickly and as efficiently as possible, always prior to its communication to third parties or other means of publication and, in any event, as soon as the relevant fact is known, the relevant decision has been made or, the relevant agreement has been executed, as the case may be. Wherever possible, the relevant event should be notified to the CNMV after the close of the markets on the day of notification so as to avoid impacting on the quotation of the Company's shares in the corresponding trading session. Furthermore, pursuant to Article 117 of the Spanish Securities Act, the Company

must post details of any relevant event on its website. Under certain circumstances, the CNMV may authorize the issuer not to make public relevant information, which may affect its legitimate interests.

Pursuant to the Royal Decree 1333/2004, of 11th November 2004 (the "**MAD Royal Decree**") the Company must try to ensure that the relevant information is disclosed simultaneously to all type of investors in the European Union Member States where it is listed.

Pursuant to the Spanish Securities Act and the Order 3722/2003 of 26th December 2003 of the Ministry of Economy (the "**Ministerial Order**") and Circular 1/2004 of the 17th March 2004 of the CNMV (the "**Circular**"), the Company is required:

- (i) To have rules of the Board of Directors which must be filed with the CNMV and published on the Company's website;
- (ii) To file with the CNMV a description of the relevant Dutch law provisions and provisions in the Articles of Association governing the conduct of shareholders' meetings and post such description on its website;
- (iii) To have a website which must contain as a minimum the information specified in the Ministerial Order and the Circular;
- (iv) To file a corporate governance report with the CNMV on an annual basis (the "**Annual Corporate Governance Report**") which must contain the information specified in the Ministerial Order and the Circular; and
- (v) In respect of the provisions of the Participation Agreement which relate to the exercise of voting rights at shareholders' meetings or restrictions or conditions on the free transferability of shares, to (a) file by July 2006 (or earlier in the case of a takeover bid or if a new agreement is entered into) such provisions with the CNMV who will then publish the provisions as a relevant event, (b) post the provisions on the Company's website, unless the CNMV exempts the Company from doing so, and (c) set out details of the provisions in the Annual Corporate Governance Report.



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### 3.1.4 Date of Incorporation and Duration of the Company

The Company was incorporated on 29th December 1998 for an unlimited duration.

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### 3.1.5 Objects of the Company

Pursuant to Article 2 of the Articles of Association, the objects of the Company are to hold, co-ordinate and manage participations or other interests in and to finance and assume liabilities, provide for security and/or guarantee debts of legal entities, partnerships, business associations and undertakings that are involved in:

- (a) the aeronautic, defence, space and/or communication industry; or
- (b) activities that are complementary, supportive or ancillary thereto.

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### 3.1.6 Commercial and Companies Registry

The Company is registered with the Registry of the Chamber of Commerce of Amsterdam (*Handelsregister van de Kamer van Koophandel en Fabrieken voor Amsterdam*) under number 24288945.

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### 3.1.7 Inspection of Corporate Documents

The Articles of Association are available for inspection in Dutch at the Chamber of Commerce of Amsterdam.

Pursuant to Article 57 of the French Decree n° 84-406 of 30th May 1984, a certified copy of a translation in French of the Articles of Association has been filed with the *Greffe* of the *Tribunal de commerce* of Paris. It is also available at the Head office of EADS in France (37, boulevard de Montmorency, 75016 Paris, France, Tel.: 00 33 1 42 24 24 24). In the event of amendments being made to the Articles of Association, an updated certified copy of the translation in

French thereof will be filed with the *Greffe* of the *Tribunal de commerce* of Paris and made available at the Head office of EADS in France.

In Germany, the Articles of Association are available at the Head office of EADS in Germany (81663 Munich, Germany, Tel.: 00 49 89 60 70).

In Spain, the Articles of Association are available at the CNMV and at the Head office of EADS in Spain (Avda. Aragón 404, 28022 Madrid, Spain, Tel.: 00 34 91 585 70 00).

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### 3.1.8 Financial Year

The financial year of the Company starts on 1st January and ends on 31st December of each year.



## General Description of the Company and its Share Capital

### 3.1 General Description of the Company

## 3.1.9 Allocation and Distribution of Income

### 3.1.9.1 Dividends

The Board of Directors shall determine which part of the profits of the Company shall be attributed to reserves. The remaining distributable profit shall be at the disposal of the shareholders' meeting.

The shareholders' meeting may resolve (if so proposed by the Board of Directors) that all or part of a dividend shall be paid in shares of the Company as opposed to cash.

The declaration of a dividend, an interim dividend or another distribution to the shareholders shall be made known to them within seven days after such declaration. Declared dividends shall be payable within four weeks of such declaration unless another date for payment is proposed by

the Board of Directors and approved by the shareholders' meeting.

Dividends, interim dividends and other distributions on shares shall be paid by bank transfer to the bank or giro accounts designated in writing to the Company by, or on behalf of, shareholders at the latest 14 days after their announcement.

### 3.1.9.2 Liquidation

In the event of the dissolution and liquidation of the Company, the assets remaining after payment of all debts and liquidation expenses shall be distributed amongst the holders of the shares in proportion to their shareholdings.

## 3.1.10 General Meetings

### 3.1.10.1 Calling of Meetings

Shareholders' meetings are held as often as the Board of Directors deems necessary or upon the request of shareholders holding, individually or together, at least 10% of the total issued share capital of the Company.

The Board of Directors must give notice of general meetings in at least one of the Netherlands' national daily newspapers, at least one international daily newspaper and at least one daily newspaper in each of the countries in which the Company's shares are listed. Such publication must be made at least 15 days before the day of the meeting, not counting the day on which notice was given, and shall state either the matters to be considered at such meeting or that the agenda is open to inspection by the shareholders at the offices of the Company and at such other locations as may be specified in the notice.

The annual shareholders' meeting of the Company is held within six months of the end of the financial year.

Shareholders' meetings are held in Amsterdam, Den Haag, Rotterdam or Haarlemmermeer (Schiphol Airport). The Board of Directors may decide that shareholders' meetings may be attended by means of electronic or video

communication devices from the locations mentioned in the convening notice.

The Board of Directors must announce the date of the annual shareholders' meeting at least two months before the meeting. Requests made by one or more shareholders collectively representing at least 1% of the issued share capital (or shares having an aggregate market value of €50 million), to put items on the agenda for the annual shareholders' meeting, must be effected by the Board of Directors, if such requests to the Board of Directors have been made at least six (6) weeks prior to the date scheduled for the meeting except if, in the opinion of the Board of Directors, important interests of the Company prevail over the insertion of such items into the agenda.

### 3.1.10.2 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. See "— 3.1.10.4 Conditions of Exercise of Right to Vote".

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.

In relation to holders of registered shares, the Board of Directors may provide in the convening notice that those persons are recognised as authorised to exercise the rights to attend, speak and vote at the shareholders' meetings, who at the point in time mentioned in the convening notice are authorised to exercise those rights and as such have been registered in the register appointed for the purpose by the Board of Directors, irrespective of who is authorised to exercise those rights on the day of the 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 (see "— 3.1.10.1 Calling of Meetings") in such manner that the person(s) acting as chairman/chairmen of the meeting is/are convinced that such 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 holders of bearer shares and those who derived the aforementioned rights from these shares shall be obliged to deposit their share certificate or the documents evidencing their rights against receipt, at such locations as shall be determined by the Board of Directors and stated in the convening notice.

Such convening notice shall also state the day which has been fixed as the final day on which the share certificates and the documents evidencing the aforementioned rights may be deposited. That day may not be earlier than five business days, but in each case not earlier than the seventh day, prior to the meeting.

As far as registered shares are concerned, the Board of Directors should be informed in writing within the timeframe mentioned in the two preceding sentences of the intention to attend the meeting.

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 the 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.

#### 3.1.10.3 Majority and Quorum

All resolutions are adopted by means of a simple majority of the votes cast except when a qualified majority is prescribed by the Articles of Association or by Dutch law. No quorum is required for any shareholders' meeting to be held. Dutch law requires a special majority for the passing of certain resolutions: inter alia, capital reduction, exclusion of preemption rights in connection with share issues, statutory mergers or statutory demergers; the passing of such resolutions requires a majority of two-thirds of the votes cast if 50% of the share capital with voting rights is not present at the meeting (or otherwise a simple majority). In addition, resolutions to amend the Articles of Association or to dissolve the Company shall only be capable of being adopted with a majority of at least two-thirds of the valid votes cast at a shareholders' meeting, whatever the quorum present at such meeting.

Pledges of shares and beneficiaries of a usufruct, which do not have voting rights, do not have the right to attend and to speak at shareholders' meetings. The owners of shares which are subject to a pledge or a usufruct, which do not have voting rights, are entitled to attend and to speak at shareholders' meetings.

## General Description of the Company and its Share Capital

### 3.1 General Description of the Company

#### 3.1.10.4 Conditions of Exercise of Right to Vote

In all shareholders' meetings, each shareholder has one vote in respect of each share it holds.

A shareholder whose shares are subject to a pledge or usufruct shall have the voting rights attaching to such shares

unless otherwise provided by law or by the Articles of Association or if, in the case of a usufruct, the shareholder has granted voting rights to the usufructuary. Pursuant to the Articles of Association and subject to the prior consent of the Board of Directors, a pledgee of shares in the Company may be granted the right to vote in respect of such pledged shares.

#### 3.1.11 Disclosure of Holdings

Any person, acting alone or in concert (as defined in the Netherlands Act on reporting of shareholdings, *Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996* (the "WMZ")), acquiring or disposing of, directly or indirectly, an interest in the share capital or voting rights of the Company resulting in such person, after such acquisition or disposal, being in a different range of thresholds in terms of capital or voting rights than that in which he was prior to such acquisition or disposal is required by the WMZ to promptly notify the Company and the AFM of such interests. The same notification requirements apply in relation to acquiring or disposing of actual or contingent rights to obtain shares or voting rights. The applicable ranges of relevant interests pursuant to the WMZ are as follows: 0% to 5%; 5% to 10%; 10% to 25%; 25% to 50%; 50% to 66 2/3%; 66 2/3% and over. The disclosures are published by the AFM on its website ([www.afm.nl](http://www.afm.nl)). Furthermore, pursuant to the WMZ, the AFM is required to publish an advertisement in a nationally distributed newspaper in each of the Member States of the European Economic Area where the shares are admitted to trading on a regulated market (France, Germany and Spain). It is expected that the WMZ will be amended on or prior to 20th January 2007, amongst others, to implement certain provisions of EC Directive 2004/109 dated 15th December 2004. In addition, the Articles of Association require notification to the Company in the event of an acquisition or disposal of an interest resulting, for any person acting alone or in concert, in a change of range from or to the ranges 25% to 33 1/3% and 33 1/3% to 50%.

According to paragraph 26 of the German Securities Trading Act (*Wertpapierhandelsgesetz*), the Company has to publish in a German supra-regional mandatory stock exchange

newspaper, if the percentage of voting rights held by a shareholder of the Company reaches, exceeds or falls short of 5%, 10%, 25%, 50% or 75% of the voting rights.

The Company has to inform the CNMV and the Spanish Stock Exchanges of any disclosure of holdings exceeding the above mentioned thresholds that it receives.

The Articles of Association also require that any person acquiring directly or indirectly or with others with whom it is acting in concert (as defined in the WMZ) more than one tenth of the issued share capital or voting rights of the Company must notify the Company of its intentions (i) to buy or sell shares of the Company in the following 12 months; (ii) to continue or to stop acquiring shares or voting rights of the Company; (iii) to acquire control of the Company; or (iv) to seek to designate a member of the Board of Directors of the Company. The Company will provide the AMF with the information received in this context.

The AMF has indicated that it will publish a notice concerning any communication so transmitted. The CNMV and the Spanish Stock Exchanges will publish all such notifications received.

Failure to comply with the legal obligation to notify a change in range of thresholds under the WMZ is a criminal offence punishable by criminal and administrative penalties as well as civil law penalties, including the suspension of voting rights.

## Disclosure Requirements for Members of the Board of Directors and the Executive Committee

### Disclosure of holdings

In addition to the WMZ requirements regarding disclosure of holdings, members of the Board of Directors must report to the AFM the number of shares in EADS and attached voting rights <sup>(1)</sup> held by him or an entity controlled by him, within two weeks following their appointment as director, whether or not such shareholdings reach specified thresholds. Subsequently, any member of the Board of Directors is required to notify to the AFM any changes in such number of shares in EADS and attached voting rights.

The Company has to inform the AMF, the German Federal Financial Supervisory Authority, the CNMV and the Spanish Stock Exchanges of any disclosure of holdings by the Directors involving shares of the Company that it receives. The CNMV and the Spanish Stock Exchanges will publish such received notifications. In addition, the Company must update the information contained in its website related to holding of shares by Directors.

### Disclosure of transactions carried out on any securities issued by the Company

Pursuant to section 47a of the WTE, certain persons discharging managerial responsibilities within the Company (i.e., for EADS, the members of the Board of Directors and of the Executive Committee) and, where applicable, persons closely associated with them must in principle notify the AFM of all transactions conducted for their own account relating to shares of the Company, or to derivatives or other financial instruments linked to them. These persons have to notify the AFM of the transactions within five trading days unless the aggregate amount of such transactions does not exceed €5,000 in respect of all transactions in a calendar year.

According to paragraph 15a of the German Securities Trading Act, persons with significant managerial responsibility with respect to the Company (i.e., for EADS, the members of the Board of Directors and the members of

the Executive Committee), or the persons closely associated with them, must disclose transactions conducted for their own account involving shares of the Company or financial instruments that relate to those shares, especially derivatives. These persons have to notify the Company and the German Federal Financial Supervisory Authority of the transactions within five trading days unless the aggregate amount of such transactions does not exceed €5,000 in respect of all transactions in a calendar year. The Company is required to publish the notification without undue delay on the Company's website or in a German supra-regional mandatory stock exchange newspaper. To some extent, this requirement also applies in connection with employee profit sharing and incentive plans and other kinds of stock option plans granted by the Company.

Pursuant to Spanish law, EADS must report to the CNMV and the Spanish Stock Exchanges any disclosures of transactions it receives and which is carried out by the members of the Board of Directors on both EADS shares and derivative instruments linked to them made under the law applicable to the Company (i.e., Dutch law).

Pursuant to Articles 222-14, 222-15, 222-15-1 and 222-15-2 of the AMF General Regulations, directors, persons with significant managerial responsibility with respect to the Company and having access on a regular basis to inside information about the Company (members of the Board of Directors and members of the Executive Committee), and, where applicable, any person closely associated with them, must report by e-mail to the AMF, within a period of five trading days following completion, any transactions in securities of the Company carried out by these persons, unless the aggregate amount of such transactions does not exceed €5,000 in respect of all transactions carried out in a calendar year. These persons must also provide the AMF with the confirmation of the order. The AMF makes such disclosure information publicly available on its website. In addition, the Company must establish, update and provide the AMF with a list detailing the persons with significant managerial responsibility with respect to the Company and having access on a regular basis to inside information about the Company.

(1) In this context, the term "shares" also includes for example depositary receipts for shares and rights resulting from an agreement to acquire shares or depositary receipts for shares, specifically call options, warrants, and convertible bonds. Equally, the term 'voting rights' also includes actual or contingent rights to voting rights (e.g., embedded in call options, warrants or convertible bonds).



#### 3.1.12 Mandatory Tender Offers

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 (as defined in the WMZ) 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 depository 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 depository receipts still has not done so, then the Company is irrevocably authorised to exchange such shares for depository 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 Directors of the Foundation (comprising the two independent Directors and one of the two Chief

Executive Officers of EADS), 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:**

- (i) to a transfer of shares to the Company itself or to the Foundation;
- (ii) 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;
- (iii) 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;
- (iv) to a transfer of shares from one party to another party who is a party to an agreement as envisaged in the WMZ to define "concert parties" where the agreement is entered into before 31st 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 "3.3.2 Relationships 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
- (v) 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.

Spanish securities legislation sets forth specific provisions which are applicable in the event an investor acquires, directly or indirectly, certain percentages of the share capital of a company listed on a Spanish Stock Exchange,



because they are deemed to be significant. These provisions, set forth in Article 1 of the Royal Decree 1197/1991, of 26th July, regarding Takeover Bids, amended by Royal Decree 432/2003, of 11th April, provide that said investor will have to offer to acquire the following percentages: the offer must be (a) for at least 10% if the investor acquires 25% of the shares, or other securities (such as subscription rights, convertible debentures, warrants, or any other similar securities that may directly or indirectly entitle such investor to subscribe or acquire shares) or a threshold that, without reaching such percentage, enables the appointment of a number of directors who, together with those already appointed, if any, represent more than 1/3 and less than 1/2 plus one of the total directors of the target company, or, if the investor already holds between 25% and 50%, and intends to purchase an additional 6% within the following 12 months, and (b) for 100% in the event that the investor reaches or exceeds the threshold of 50% or a threshold that, without reaching such percentage, enables the appointment of a number of directors who, together with those already appointed, if any, represent more than 1/2 of the total directors of the target company. Given the different thresholds set forth in Article 1 of the Royal Decree 1197/1991 and in Article 15 of the Articles of Association of EADS (which in short requires, in principle, that a tender

offer for 100% of the share capital be launched in the event a shareholder controls (alone, or in concert with shareholders) directly or indirectly a number of shares or voting rights exceeding 33 1/3% of the share capital of EADS, as described above), *Sociedad Estatal de Participaciones Industriales* (“SEPI”), a minority shareholder of EADS, taking the stand that the Royal Decree 1197/1991 is not applicable to EADS, as a Dutch company listed in three different countries (Spain, France and Germany), the Articles of Association of which duly provide that a tender offer must be launched whenever control of 33 1/3% of the share capital is taken, has, on behalf of EADS, consulted on this issue with the CNMV, which has confirmed in writing that ‘the event posed does not fall within those contemplated in the aforementioned Royal Decree 1197/1991’ and, therefore, said Royal Decree 1197/1991 is not applicable to EADS.

In addition, the CNMV, responding to a request from certain shareholders of EADS, stated in a letter dated 19th June 2000 that the Royal Decree 1197/91 dated 26th July 1991 relating to takeover bids does not apply to transfers of shares between parties in the EADS shareholders agreements, provided such transfers are made within the framework of the shareholders agreements and that such agreements remain in force.

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## 3.2 General Description of the Share Capital

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### 3.2.1 Modification of Share Capital or Rights Attaching to the 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 "3.3.2 Relationships with Principal Shareholders".

The shareholders' meeting has the power to issue shares. The shareholders' meeting may also authorize 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 authorize the Board of Directors for a period of no more than five years, to limit or to exclude preemption 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.

A resolution will be submitted to the annual shareholders' meeting of EADS to be held on 4th May 2006 in order to

authorize the Board of Directors to issue shares representing up to 1% of the Company's authorised share capital from time to time, to grant rights to subscribe for shares for a period up to and including the date of the annual shareholders' meeting to be held in 2007 and also in the case where the subscription rights may be exercised thereafter, and to determine the terms and conditions of the shares issuances. Further resolutions have also been submitted to such shareholders' meeting to authorize the Board of Directors to limit or exclude the preferential subscription rights for the period up to and including the date of the annual shareholders' meeting to be held in 2007 and to approve stock option plans and employee share ownership plans which may include the granting of rights to subscribe for shares, which can be exercised at such time as may be specified in such plans.

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, the latter requiring the approval of at least two-thirds of the votes cast at the general meeting. In the annual general of shareholders to be held on 4th May 2006, it will be proposed to cancel up to a maximum of 6,956,970 shares.

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### 3.2.2 Issued Share Capital

As at 31st December 2005, the Company's issued share capital is €817,743,130 comprising 817,743,130 shares of a nominal value of €1.0 each.

### 3.2.3 Authorised Share Capital

As at 31st December 2005 the authorised share capital of the Company is €3 billion comprising 3,000,000,000 shares of €1.0 each.

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

Except for stock options granted for the subscription for EADS shares (See "Part 1/2.3.3 Options Granted to Employees"), 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 31st December 2005 were exercised:

EADS' potential share capital	Number of shares	Dilution percentage in capital	Number of voting rights	Dilution percentage in voting rights
Total number of EADS shares issued as of the date of this document	817,743,130	95.97%	807,150,421	95.9%
Total number of EADS shares which may be issued following exercise of stock options	34,366,468	4.03%	34,366,468 *	4.1%
<b>Total potential EADS share capital</b>	<b>852,109,598</b>	<b>100%</b>	<b>841,516,889</b>	<b>100%</b>

(\*) 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. See "3.3.7.1 Dutch Law and information on share buy-back programmes".

## General Description of the Company and its Share Capital

### 3.2 General Description of the Share Capital

#### 3.2.5 Changes in the Issued Share Capital Since Incorporation of the Company

Date	Nature of Transaction	Nominal value per share	Number of shares issued / cancelled	Premium*	Total number of issued shares after transaction	Total issued capital after transaction
29th December 1998	Incorporation	NLG 1,000	100	-	100	NLG 100,000
3rd April 2000	Conversion into €	€1	50,000	-	50,000	€50,000
8th July 2000	Issue of shares in exchange for contributions by Aerospatiale Matra, Dasa AG and SEPI	€1	715,003,828	€1,511,477,044	715,053,828	€715,053,828
13th July 2000	Issue of shares for the purpose of the initial public offering and listing of the Company	€1	80,334,580	€1,365,687,860	795,388,408	€795,388,408
21st September 2000	Issue of shares for the purpose of the employee offering carried out in the context of the initial public offering and listing of the Company	€1	11,769,259	€168,300,403	807,157,667	€807,157,667
5th December 2001	Issue of shares for the purpose of an employee offering ( <i>note d'opération</i> approved by the COB** on 13th October 2001 under number 01-1209)	€1	2,017,894	€19,573,571.80	809,175,561	€809,175,561
4th December 2002	Issue of shares for the purpose of an employee offering ( <i>note d'opération</i> approved by the COB on 11th October 2002 under number 02-1081)	€1	2,022,939	€14,470,149.33	811,198,500	€811,198,500
5th December 2003	Issue of shares for the purpose of an employee offering ( <i>note d'opération</i> approved by the COB on 25th September 2003 under number 03-836)	€1	1,686,682	€19,363,109.36	812,885,182	€812,885,182
20th July 2004	Cancellation of shares upon authorisation granted by the annual shareholders' meeting held on 6th May 2004	€1	5,686,682	-	807,198,500	€807,198,500
3rd December 2004	Issue of shares for the purpose of an employee offering ( <i>note d'opération</i> approved by the AMF on 10th September 2004 under number 04-755)	€1	2,017,822	€34,302,974	809,216,322	€809,216,322
In 2004	Issue of shares following exercise of options granted to employees ***	€1	362,747	€6,133,436	809,579,069	€809,579,069
25th July 2005	Cancellation of shares upon authorisation granted by the annual shareholders' meeting held on 11th May 2005	€1	1,336,358	-	808,242,711	€808,242,711
29th July 2005	Issue of shares for the purpose of an employee offering ( <i>note d'opération</i> approved by the AMF on 4th May 2005 under number 05-353)	€1	1,938,309	€34,618,198.74	810,181,020	€810,181,020
In 2005	Issue of shares following exercise of options granted to employees ***	€1	7,562,110	€144,176,031.61	817,743,130	€817,743,130

(\*) The costs (net of taxes) related to the initial public offering of the shares of the Company in July 2000 have been offset against share premium for an amount of €55,849,772.

(\*\*) Former name of the *Autorité des marchés financiers* (the "AMF").

(\*\*\*) For information on stock option plans under which these options were granted to EADS employees, see "Part 1/2.3.3 Options Granted to Employees".

## 3.3 Shareholdings and Voting Rights

### 3.3.1 Shareholding Structure

EADS combined the activities of Aerospatiale Matra (“**Aerospatiale Matra**” or “**ASM**”), DaimlerChrysler Aerospace AG (“**Dasa AG**”) (with the exception of certain assets and liabilities) (“**Dasa**”) 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 SEPI to EADS to combine such activities into EADS.

The term ‘Indirect EADS Shares’ relates to EADS shares held by DaimlerChrysler AG (“**DaimlerChrysler**”), SEPI and *Société de Gestion de l’Aéronautique, de la Défense et de l’Espace* (“**SOGEADE**”), for which EADS Participations B.V. exercises all the attached voting rights as well as 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 SOGEADE, reflecting by transparency, their respective interest in SOGEADE.

Unless the context requires otherwise, the shareholdings of DaimlerChrysler Luft-und Raumfahrt Beteiligungs GmbH & Co. KG (“**DC KG**”) in EADS are referred to in this document as shareholdings of DaimlerChrysler, and the rights and obligations of DC KG pursuant to the agreements described herein are referred to as rights and obligations of DaimlerChrysler.

As at 31st December 2005, 29.89% of the EADS shares are held by DC KG, which is a wholly owned subsidiary

of Dasa AG, itself being a wholly owned subsidiary of DaimlerChrysler Luft- und Raumfahrt Holding AG (“**DCLRH**”), a 93.85% subsidiary of DaimlerChrysler. SOGEADE, a French partnership limited by shares (*société en commandite par actions*) whose share capital is held 50% by SOGEPA (a French state holding company) and 50% by Désirade (a French *société par actions simplifiée* wholly owned by Lagardère), owns 29.89% of the EADS shares. Thus, 59.78% of the share capital of EADS is held in equal proportions by DaimlerChrysler and SOGEADE who jointly control EADS through a Dutch law contractual partnership (the “**Contractual Partnership**”). SEPI (a Spanish state holding company), being a party to the Contractual Partnership, holds 5.47% of the share capital of EADS. The public (including EADS employees) and the Company hold, respectively, 33.39% and 1.30% of the share capital of EADS. The *République française* (the “**French State**”) holds directly 0.06% of such share capital, such shareholding being subject to certain specific provisions.

On 8th July 2004, DaimlerChrysler announced that it had placed on the market (in the context of a hedging transaction) all of its EADS shares (22,227,478 EADS shares), representing 2.73% of the capital and 2.78% of the EADS voting rights at that date, except for its Indirect EADS Shares. Thus, DaimlerChrysler does not hold directly any EADS shares at the date of this document.

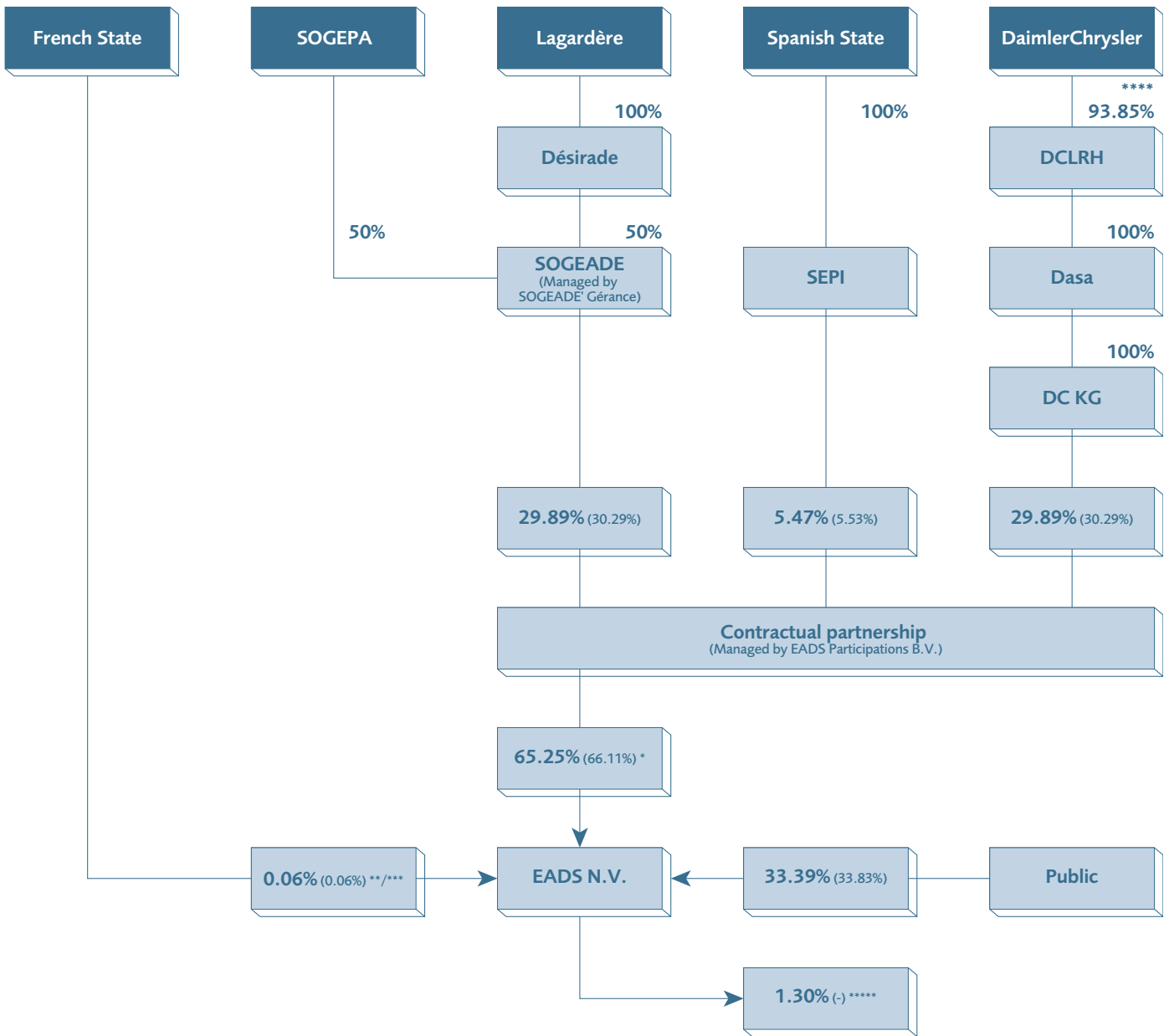
On 11th November 2005, Dasa AG transferred its whole interest in EADS to its wholly owned subsidiary DC KG.



# General Description of the Company and its Share Capital

## 3.3 Shareholdings and Voting Rights

The diagram below shows the ownership structure of EADS as at 31st December 2005 (% of capital (voting rights)) before exercise of outstanding stock options granted for the subscription of EADS shares. See “Part 1/2.3.3 Options Granted to Employees”.



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

(\*\*) The French State exercises the voting rights attaching 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.

(\*\*\*\*) DCLRHRH is 93.85% held by DaimlerChrysler; almost all the balance is held by the City of Hamburg.

(\*\*\*\*\*) As at 31st December 2005, the Company holds, directly or indirectly through another company in which the Company holds directly or indirectly more than 50% of the share capital, 10,592,709 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 Part 1 / 2.2.1 Compensation Granted to Directors and Principal Executive Officers”.

Approximately 2.25% of the capital and 2.28% of the voting rights are held by EADS employees.

For further information on changes to shareholdings since 31st December 2005, see also “1.2 Recent Developments”.

### 3.3.2 Relationships with Principal Shareholders

The principal agreements governing the relationships between the founders of EADS are an agreement (the “**Participation Agreement**”) entered into on Completion between DaimlerChrysler, Dasa AG, Lagardère, SOGEPA, SOGEADE and SEPI, and 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, DaimlerChrysler and DCLRH). EADS Participations B.V. is a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) and is the managing partner of the Contractual Partnership. The Indirect EADS Shares held by DaimlerChrysler, SOGEADE and SEPI have been pledged to EADS Participations B.V., which has been granted the exclusive power to exercise the voting rights attaching 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 SOGEADE Gérance (*gérant commandité* of SOGEADE);
- restrictions on the transfer of EADS shares and SOGEADE shares;
- pre-emptive and tag-along rights of DaimlerChrysler, SOGEADE, SOGEPA and Lagardère;
- defences against hostile third parties;
- consequences of a change of control of DaimlerChrysler, SOGEADE, Lagardère, SOGEPA or SEPI;

- a put option granted by SOGEADE to DaimlerChrysler 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 DaimlerChrysler and by SOGEADE, respectively (taking into account proposals made by Lagardère in respect of the SOGEADE-nominated directors). DaimlerChrysler and SOGEADE each nominate four directors, unless otherwise agreed, and each nominates from among its nominated directors a chairman and a chief executive officer. In addition, although from 8th July 2003, SEPI no longer has a right to nominate a director, based upon the proposal of DaimlerChrysler and SOGEADE, the board of directors of EADS Participations B.V. decided to propose to the shareholders’ meeting of EADS Participations B.V. to held on 11th May 2005 appointed an additional Spanish director bringing the total number of directors to nine.

This structure gives DaimlerChrysler and SOGEADE 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 six directors, except for certain specified matters which require the prior unanimous approval of DaimlerChrysler and SOGEADE.

## General Description of the Company and its Share Capital

### 3.3 Shareholdings and Voting Rights

#### Transfer of EADS Shares

During the period commencing at Completion and ending on 1st July 2003 (the “**Standstill Period**”), there were restrictions on DaimlerChrysler’s, SOGEADE’s, SEPI’s, Lagardère’s, SOGEPA’s and the French State’s ability to transfer EADS shares.

Following the expiration of the Standstill Period, as of 1st July 2003, each of DaimlerChrysler, SOGEADE, SEPI, Lagardère and SOGEPA has 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, DaimlerChrysler (in the case of a sale by SOGEADE), SOGEADE (in the case of a sale by DaimlerChrysler) or SOGEADE and DaimlerChrysler (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 (a) to an identified third party subject to Lagardère’s or SOGEPA’s consent (as the case may be) and also to DaimlerChrysler’s consent and (b) if such consent is not obtained, the Indirect EADS Shares may be sold on the market, subject to DaimlerChrysler’s pre-emption right referred to above;
- each of Lagardère and SOGEPA shall 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 DaimlerChrysler or SOGEADE 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 DaimlerChrysler and SOGEADE 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.

Following the expiration of the Standstill Period, as of 1st July 2003, 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 DaimlerChrysler or SOGEADE (a “**Hostile Offer**”), subject to provisions requiring, inter alia, the party wishing to accept, to first offer its EADS shares to DaimlerChrysler and/or SOGEADE, in which case DaimlerChrysler and/or SOGEADE may exercise their pre-emption rights in respect of all or some only 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 DaimlerChrysler, SOGEADE 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 SOGEADE, DaimlerChrysler and SOGEPA respectively. In the case of a sale by Lagardère, if SOGEPA does not exercise its right of pre-emption, DaimlerChrysler has in turn a pre-emption right.

#### Dissolution of Contractual Partnership and EADS Participations B.V.

The Contractual Partnership and EADS Participations B.V. will be dissolved and wound up upon the occurrence of certain events (each, a “**Termination Event**”) including:

- (i) if the proportion which the Indirect EADS Shares of either DaimlerChrysler or SOGEADE bears to the total number of EADS shares is less than 10%, unless the difference between the holdings of DaimlerChrysler and

SOGEADE (calculated as a percentage by reference to the number of Indirect EADS Shares held by each of them as against the total number of EADS shares) is 5% or less, in which case the dissolution and winding up shall only occur if the proportion which the Indirect EADS Shares of DaimlerChrysler or SOGEADE bears to the total number of EADS shares is 5% or less; or

(ii) if, on a change of control of either Lagardère, SOGEPA, SOGEADE or DaimlerChrysler, no notice of an offer by a third party to purchase the SOGEADE shares or the Indirect EADS Shares held by the party undergoing the change of control (the “**Changed Party**”) (which offer the Changed Party wishes to accept) has been served in accordance with the Participation Agreement (see below “— Change of Control”) within 12 months of the date of the change of control occurring (the absence of notice of an offer by a third party to purchase the Indirect EADS Shares held by SEPI upon a change of control of SEPI does not trigger a dissolution of the Contractual Partnership or EADS Participations B.V. but shall cause SEPI to lose its main rights or liabilities under the Participation Agreement or the Contractual Partnership Agreement).

On the occurrence of a Termination Event, EADS Participations B.V. is prohibited from conducting further business except as is necessary to its liquidation or the liquidation of the Contractual Partnership.

### Change of Control

The Participation Agreement provides, inter alia, that if (a) Lagardère or SOGEPA undergoes a change of control and DaimlerChrysler so elects (b) SOGEADE undergoes a change of control and DaimlerChrysler so elects (c) DaimlerChrysler undergoes a change of control and SOGEADE so elects (d) SEPI undergoes a change of control and SOGEADE or DaimlerChrysler so elects then:

(i) the party undergoing the change of control shall use its reasonable efforts to procure the sale of its SOGEADE interest (if the party undergoing the change of control is Lagardère or SOGEPA) or of its Indirect EADS Shares (if the party undergoing the change of control is DaimlerChrysler, SOGEADE or SEPI) to a third party purchaser on bona fide arm’s length terms. When the party subject to the change of control is Lagardère or SOGEPA, the third party purchaser

shall be nominated with DaimlerChrysler’s consent, not to be unreasonably withheld; and

(ii) in the event that a third party offers to purchase the SOGEADE interest held by Lagardère or SOGEPA or the Indirect EADS Shares held by DaimlerChrysler, SOGEADE or SEPI as the case may be, is received and the party undergoing the change of control wishes to accept that offer, such offer shall immediately be notified to (a) DaimlerChrysler in the case of a change of control occurring to Lagardère or SOGEPA, (b) SOGEADE in the case of the change of control occurring to DaimlerChrysler, (c) DaimlerChrysler in the case of the change of control occurring to SOGEADE, or (d) DaimlerChrysler or SOGEADE in the case of the change of control occurring to SEPI (the party notified under (a), (b), (c) or (d) being the “**Non-Changed Party**”). The Non-Changed Party shall have a first right to purchase the SOGEADE interest or the Indirect EADS shares being offered for sale at the price being offered by the third party. In relation to (d), if DaimlerChrysler and SOGEADE have both elected that SEPI procure a third party purchaser, then they shall each have the right to acquire SEPI’s Indirect EADS Shares in the respective proportions which the number of their EADS shares bear to one another at that time. In the event that the Non-Changed Party does not give notice of its intention to purchase the SOGEADE interest or the Indirect EADS Shares within 30 days of the offer being made, then the Changed Party is obliged to sell such SOGEADE interest or Indirect EADS Shares to the third party on the terms of the third party’s original offer.

The third party purchaser may not be a competitor of EADS, SOGEADE or DaimlerChrysler (as the case may be) nor a member of the Group which has taken control of the Changed Party.

### Events of Default Other Than Change of Control

The Participation Agreement provides for certain actions following events of default (other than a change of control) (i.e., insolvency-related or a material breach of the Participation Agreement). In particular, if such an event of default occurs in relation to DaimlerChrysler, SOGEADE or SEPI, the non-defaulting party (respectively SOGEADE, DaimlerChrysler and SOGEADE and DaimlerChrysler



## General Description of the Company and its Share Capital

### 3.3 Shareholdings and Voting Rights

acting together) has a call option over the defaulting party's EADS shares and interest in EADS Participations B.V. If such an event of default occurs in relation to Lagardère or SOGEPA, such party is obliged to use its best efforts to sell its interest in the capital of SOGEADE on bona fide arm's length terms to a third party purchaser (who must not be a competitor of EADS or DaimlerChrysler). In the case of a sale by Lagardère, the third party purchaser must be nominated by SOGEPA with DaimlerChrysler's consent (which may not be unreasonably withheld). In the case of such a sale by SOGEPA, DaimlerChrysler must consent to the sale (again, such consent may not be unreasonably withheld).

#### Specific Rights and Undertakings of the French State

The French State, not being a party to the Participation Agreement, entered into a separate agreement, governed by French law, with DaimlerChrysler and DCLRH on 14th October 1999 (as amended) pursuant to which:

- the French State undertakes to hold an interest of no more than 15% of the entire issued share capital of EADS through SOGEPA, SOGEADE and EADS Participations B.V.;
- the French State undertakes that neither it nor any of its undertakings will hold any EADS shares directly;

in each case disregarding (i) those EADS 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 and which will have to be sold on the market; (ii) those shares held by SOGEPA or the French State which may be sold or acquired pursuant to the Participation Agreement or the SOGEADE Shareholders' Agreement (see below); and (iii) those shares held for exclusively investment purposes.

Moreover, pursuant to an agreement entered into between EADS and the French State (the "**Ballistic Missiles Agreement**"), EADS has granted to the French State (a) a veto right and subsequently a call option on the ballistic missiles activity exercisable in the event that (i) a third party which is not affiliated to the DaimlerChrysler and / or Lagardère Groups acquires, directly or indirectly, either alone

or in concert, more than 10% or any multiple thereof of the share capital or voting rights of EADS or (ii) the sale of the ballistic missiles assets or of the shares of such companies carrying out such activity is considered after the termination of the SOGEADE Shareholders' Agreement and (b) a right to oppose the transfer of any such assets or shares during the duration of the SOGEADE Shareholders' Agreement.

#### SOGEADE

SOGEADE is a French partnership limited by shares (*société en commandite par actions*) the share capital of which is split between SOGEPA (50%) and Désirade, a French *société par actions simplifiée* (50%). The share capital of Désirade is itself wholly owned by Lagardère. Lagardère hence owns indirectly 50% of SOGEADE.

The general partner (*associé commandité*) of SOGEADE, SOGEADE Gérance, is a French *société par actions simplifiée* which is the manager of SOGEADE.

SOGEADE Gérance's board of directors consists of eight directors, four of them nominated by Lagardère and four by SOGEPA. Decisions of SOGEADE Gérance's board shall be approved by a simple majority of directors except for the following matters which require the approval of a qualified majority of six of the eight directors: (a) acquisitions or divestments of shares or assets the individual value of which exceeds €500 million; (b) agreements establishing strategic alliances, or industrial or financial co-operation; (c) a capital increase of EADS of more than €500 million to which no preferential right to subscribe for the shares is attached; (d) any decision to divest or create a security interest over the assets relating to prime contractor status, design, development and integration of ballistic missiles or the majority shareholdings in the companies Cilas, Sodern, Nuclétudes and the GIE Cosyde. The decisions contemplated under (d) above are also governed by the Ballistic Missiles Agreement (see above "— Specific Rights and Undertakings of the French State").

When a vote of SOGEADE Gérance's board on such matters does not reach the qualified majority of six directors by reason of any of the SOGEPA-nominated directors casting a negative vote, the SOGEADE-nominated directors on the board of EADS Participations B.V. are obliged to vote against the proposal. This means that the French State as the owner



of SOGEPA can veto any decisions on these matters within EADS Participations B.V. and in turn within EADS as long as the SOGEADE Shareholders' Agreement remains in existence.

The shareholding structure of SOGEADE shall reflect at all times the indirect interests of all the shareholders of SOGEADE in EADS.

In certain circumstances, in particular in the event of a change of control of Lagardère, Lagardère shall grant a call option over its SOGEADE shares to any non-public third party designated by SOGEPA and approved by DaimlerChrysler. This option may be exercised during the term of the SOGEADE Shareholders' Agreement on the basis of the market price for the EADS shares.

The SOGEADE Shareholders' Agreement shall terminate if Lagardère or SOGEPA ceases to hold at least 20% of the capital of SOGEADE, except that: (a) the provisions relating to the call option granted by Lagardère described above shall remain in force as long as the Participation Agreement is in force, (b) as long as SOGEPA holds at least one SOGEADE share, it will remain entitled to nominate a SOGEADE Gérance Director whose approval will be required in respect of any decision to divest or create a security interest over the assets relating to prime contractor status, design, development and integration of ballistic missiles activity or the majority shareholdings in the companies Cilas, Sodern, Nuclétudes and the GIE Cosyde; and (c) the SOGEADE Shareholders' Agreement will be terminated in the event of a dissolution of EADS Participations B.V. caused by DaimlerChrysler. In the latter case, the parties have undertaken to negotiate a new shareholders' agreement in the spirit of the shareholders' agreement between them dated 14th April 1999 relating to Aerospatiale Matra and having regard to their respective shareholdings in SOGEADE at the time of the dissolution of EADS Participations B.V.

#### **Put Option**

Under the Participation Agreement, SOGEADE grants a put option to DaimlerChrysler over its EADS shares which shall be exercisable by DaimlerChrysler, (i) in the event of a deadlock arising from the exercise by SOGEPA of its rights relating to certain strategic decisions (listed above under the description of SOGEADE) other than those relating to the ballistic missiles activity or (ii) during certain periods

provided that in both cases the French State still holds any direct or indirect interest in EADS shares. The put option may only be exercised in respect of all and not some only of DaimlerChrysler's EADS shares.

The exercise price of the option will be calculated on the basis of an average market price for EADS shares.

In the event that DaimlerChrysler exercises the put option granted to it by SOGEADE, SOGEADE will acquire the EADS shares from DaimlerChrysler. However, Lagardère has the right to require SOGEPA to substitute itself for SOGEADE in relation to the acquisition of DaimlerChrysler's EADS shares following the exercise by DaimlerChrysler of the put option. Such substitution right has been accepted by DaimlerChrysler. In the event that Lagardère does not exercise such substitution right, Lagardère would have to provide its pro rata part of the financing necessary for such acquisition. SOGEPA undertakes to provide its pro rata part of the financing corresponding to its rights in SOGEADE. Should Lagardère decide not to take part in the financing, (a) SOGEPA undertakes to substitute itself for SOGEADE to buy the shares sold by DaimlerChrysler as a result of the exercise of its put option and SOGEPA or Lagardère may request the liquidation of SOGEADE and EADS Participations B.V. and the termination of the SOGEADE Shareholders' Agreement (notwithstanding the termination provisions of the SOGEADE Shareholders' Agreement described under the paragraph "SOGEADE" above). In that case, Lagardère could freely sell its EADS shares on the market or in a block sale to a third party.

#### **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, SOGEADE, DaimlerChrysler 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.

#### Contributions to EADS — Specific Undertakings of EADS

EADS has agreed not to dispose of the shares contributed to it by Aerospatiale Matra, Dasa AG and SEPI for a period of seven years. The contribution agreements entered into between EADS on the one hand and Aerospatiale Matra, Dasa AG and SEPI on the other hand, provide that EADS may, if it determines that this is desirable, dispose of such shares provided that EADS shall, on demand, indemnify Lagardère and SOGEPA (in the case of a sale of shares contributed by Aerospatiale Matra), Dasa AG or SEPI, as the case may be, for all tax disadvantages (tax actually paid or borne by them as well as any consumption of loss-carry-forward potential) they suffer as a result of the loss of the tax benefit triggered by the disposal of the shares by EADS. Such obligation to indemnify shall cease after seven years from the date of contribution. In the event that the indemnification would be made to all three of Lagardère, SOGEPA and Dasa AG, the Board of Directors would decide on the amount of the indemnity on the basis of a report made and presented by the two independent Directors of EADS. The amount and the conditions of this indemnification will be reported to the shareholders' meeting.

#### DADC

EADS holds 75% of the shares in DADC Luft- und Raumfahrt Beteiligungs AG ("DADC") (the other 25% being held by DCLRH). The share capital of Dornier GmbH is held as to 97.1% by DADC and as to 2.9% by the Dornier family. In shareholders' meetings, DADC is entitled to more than 95.2% and the Dornier family to less than 4.8% of the voting rights in Dornier GmbH. DADC and Dornier GmbH have entered into a control and profit and loss transfer agreement.

A considerable number of shareholders' resolutions in Dornier GmbH require a majority of 100% of the votes cast in the shareholders' meeting notably resolutions to dissolve the company, alterations of the Articles of Association if they terminate, limit or have an impact on the rights of the minority shareholders, reduction of share capital, mergers (unless Dornier GmbH is the surviving entity), the transfer of holdings in other enterprises or the transfer of whole areas of enterprise activities with the exception of transfers

of assets in return for shares or as a contribution in kind or to a company associated with DaimlerChrysler, which is assumed to be the case if DaimlerChrysler controls at least 20% of its share capital. The same requirement applies with regard to all transfers of shares of Dornier GmbH held by the DaimlerChrysler Group (including associated enterprises) subject to certain exceptions including the transfer to other DaimlerChrysler Group companies (including associated enterprises). Furthermore, the Dornier family receives a guaranteed dividend from Dornier GmbH (depending on the nature of the shares) of 8.7% or 15% of the nominal amount of their shares plus any corporation tax credits. The guaranteed dividend is indexed. DaimlerChrysler has guaranteed the payment of the minimum dividend to the Dornier family shareholders. In the case of the profit and loss transfer agreement, which presently exists between DADC and Dornier GmbH, the Dornier family shareholders are entitled to receive payments corresponding at least to the amount which they would be entitled to in the absence of such profit and loss transfer agreement. Internally DADC has assumed this obligation.

On 30th November 1988 DaimlerChrysler and the Dornier family entered into a separate agreement to strengthen the rights of DaimlerChrysler and, simultaneously, to protect the economic interests of the minority shareholders. The latter can, in particular, demand that their shares in Dornier GmbH be bought (i) for cash consideration or (ii) in exchange for DaimlerChrysler shares or (iii) in exchange for shares in a company in which, or under which, DaimlerChrysler concentrates its aerospace activities by DaimlerChrysler or another company associated with DaimlerChrysler and nominated by DaimlerChrysler. On 29th March 2000 DaimlerChrysler, DCLRH, DADC, EADS Deutschland GmbH and Dasa AG entered into an agreement according to which DaimlerChrysler has the right to demand from DADC to buy the shares so offered by the Dornier family shareholders. DaimlerChrysler shall reimburse DADC for any amount to be paid being above the fair market value of the shares. Moreover, DADC will assume certain other rights and obligations relating to the protection of the interests of the Dornier family.

On 29th December 2004, Silvius Dornier and DaimlerChrysler entered into an agreement to transfer all of the remaining shares of Silvius Dornier in Dornier GmbH (3.58%) to DaimlerChrysler or another company of the

DaimlerChrysler Group nominated by DaimlerChrysler and to settle all of the rights and potential claims of Silvius Dornier resulting from or in connection with his shareholding in Dornier GmbH. None of the other family shareholders exercised their three months' right of first refusal to acquire these shares so that the legal transfer became effective on 17th April 2005. According to the above mentioned agreement between DaimlerChrysler, DCLRH, DADC, EADS Deutschland GmbH and Dasa AG ("*Handhabungsvereinbarung*"), DADC had irrevocably offered to DaimlerChrysler to buy these shares at market value upon effectiveness of their sale to DaimlerChrysler, which offer was accepted by DaimlerChrysler and the deal being brought to closure on 3rd May 2005.

Under the terms of the business combination agreements entered into in the context of the creation of EADS, DCLRH has undertaken to indemnify Lagardère (for itself and on behalf of each member of the Lagardère Group) and SEPI and shall keep them indemnified, against (save in respect of any consequential loss not foreseeable by DCLRH (or any member of the DaimlerChrysler Group)) all or any

costs, claims, demands, expenses, losses or liabilities that they (or any of them) may suffer or incur from the date of the business combination agreements entered into in the context of the creation of EADS as a result of all or any of the shareholders of Dornier GmbH other than a member of the Dasa Group obtaining or seeking to obtain any rights or remedies against Lagardère (or any member of the Lagardère Group), SEPI, the Contractual Partnership, EADS Participation B.V., Dasa AG, EADS or any entity contributed by or on behalf of DaimlerChrysler which is to become a member of the Group or any member of the Dasa AG Group. This indemnity shall also extend to EADS to the extent such protection is not provided for in the transfer of the Dasa business to EADS.

Other than the relationships between the Company and its principal shareholders described above in this Section 3.3.2, to the Company's knowledge, there are no potential conflicts of interest relative to the Company between the duties of the Directors and their respective private interests or other duties.

### 3.3.3 Form of Shares

The shares of EADS are in registered form. The Board of Directors may decide in respect of all or certain shares, on shares in bearer form.

Shares shall be registered in the shareholders' register without the issue of a share certificate or, should the Board

of Directors so decide, in respect of all or certain shares, with the issue of a certificate. Share certificates shall be issued in such form as the Board of Directors may determine. Registered shares shall be numbered in the manner to be determined by the Board of Directors.

### 3.3.4 Changes in the Shareholding of the Company Since its Incorporation

The Company was founded with an authorised share capital of 500,000 Netherlands Guilders ("**NLG**") divided into 500 shares each having a nominal value of 1,000 NLG, of which 100 were issued to Aerospatiale Matra on 29th December 1998. These shares were transferred to Dasa AG by way of notarised transfer certificate on 28th December 1999.

The changes in the shareholding of the Company since its initial public offering and listing are set forth below (for a description of the changes in the issued share capital of the Company since its incorporation, see "3.2.5 Changes in the Issued Share Capital Since Incorporation of the Company").

Since July 2000, 4,293,746 EADS shares (representing 0.52% of the share capital of EADS as of the date of this document) have been distributed without payment of consideration

## General Description of the Company and its Share Capital

### 3.3 Shareholdings and Voting Rights

by the French State to certain former shareholders of Aerospatiale Matra as a result of its privatisation in June 1999. The last distribution took place in July 2002.

In addition, in January 2001, the French State and Lagardère sold on the market all of their EADS shares (respectively 7,500,000 and 16,709,333 EADS shares) other than their Indirect EADS Shares (and, in the case of the French State, other than the EADS shares to be distributed to former shareholders of Aerospatiale Matra, see “— 3.3.2 Relationships with Principal Shareholders — Specific Rights and Undertakings of the French State”) that they held as a result of the non-exercise of the over-allotment option granted to the underwriters in the context of the initial public offering carried out by the Company for the purpose of its listing in July 2000 (including, in the case of Lagardère, those shares other than its Indirect EADS Shares purchased from the French Financial Institutions at the end of the exercise period of the over-allotment option).

On 8th July 2004, DaimlerChrysler announced that it had placed on the market (in the context of a hedging transaction) all of its EADS shares (22,227,478 EADS

shares), representing 2.73% of the capital and 2.78% of the EADS voting rights at that date, except for its Indirect EADS Shares. On 20th July 2004, the Company cancelled 5,686,682 of its own shares. Finally, during 2004 and until the date of this document, the Company issued 490,609 shares following the exercise of options granted to Group employees within the framework of stock option plans granted to them in 2000, 2002 and 2003 (see “Part 1 / 2.3.3 Options Granted to Employees”).

Since the date of filing with the AMF of the *Document de Référence* of the Company for the financial year 2004 (19th April 2005), the Company has not received any threshold notification. To the knowledge of the Company, none of the shareholders of the Company, other than as disclosed in the chart below, hold more than 5% of the share capital or voting rights of the Company.

The Division of the issued shares and voting rights of the Company before exercise of outstanding stock options granted for the subscription of EADS shares (see “Part 1 / 2.3.3 Options Granted to Employees”) in respect of the past three years is indicated in the table below:

Shareholders	Position as at 31st Dec. 2005			Position as at 31st Dec. 2004			Position as at 31st Dec. 2003		
	% of capital	% of voting rights	Number of shares	% of capital	% of voting rights	Number of shares	% of capital	% of voting rights	Number of shares
DC KG (EADS shares held by Dasa AG until 2005)	29.89%	30.29%	244,447,704	30.20%	30.43%	244,447,704	30.07%	30.52%	244,447,704
SOGEADE	29.89%	30.29%	244,447,704	30.20%	30.43%	244,447,704	30.07%	30.52%	244,447,704
SEPI	5.47%	5.53%	44,690,871	5.52%	5.56%	44,690,871	5.50%	5.58%	44,690,871
Sub-total Contractual Partnership	65.25%	66.11%	533,586,279	65.92%	66.42%	533,586,279	65.64%	66.62%	533,586,279
Dasa AG	-	-	-	-	-	-	2.73%	2.78%	22,227,478
French State	0.06%	0.06%	502,746*	0.06%	0.06%	502,746	0.06%	0.06%	502,746
Public	33.39%	33.83%	273,061,396**	33.25%	33.52%	269,248,792	30.10%	30.54%	244,640,745
Own share buy-back***	1.30%	—	10,592,709	0.77%	—	6,241,252	1.47%	—	11,927,934
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>817,743,130</b>	<b>100.00%</b>	<b>100.00%</b>	<b>809,579,069</b>	<b>100.00%</b>	<b>100.00%</b>	<b>812,885,182</b>

(\*) Shares held by the French State following the distribution without payment of consideration of 4,293,746 shares 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.

(\*\*) Including EADS employees. As at 31st December 2005, EADS employees hold approximately 2.25% of the share capital and 2.28% of the voting rights.

(\*\*\*) The EADS shares owned by the Company itself do not carry voting rights.

To the knowledge of the Company, except as disclosed previously in “3.3.2 Relationships with Principal Shareholders”, there are no pledges over the shares of the Company.

The Company requested a disclosure of the identity of the beneficial holders of its shares held by identifiable holders (*“Titres au porteur identifiable”*) holding more than 10,000 shares each. The study, which was completed on 31st December 2005, resulted in the identification of

1,552 shareholders holding a total of 234,778,123 EADS shares (including 3,254,107 shares held by Iberclear on behalf of the Spanish markets and 20,842,757 shares held by Clearstream on behalf of the German market).

The shareholding structure of the Company is as shown in the diagram in “3.3.1 Shareholding Structure”.

For further information on changes to shareholdings since 31st December 2005, see also “1.2 Recent Developments”.

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### 3.3.5 Persons Exercising Control over the Company

See “3.3.1 Shareholding Structure” and “3.3.2 Relationships with Principal Shareholders”.

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### 3.3.6 Simplified Group Structure Chart

The following chart illustrates the simplified organisational structure of EADS, comprising five Divisions and the main BUs. For ease of presentation, intermediate holding companies have been omitted. The shaded boxes represent Divisions (with respect to the MTA Division) or BUs (with respect to Military Air Systems) that are part of the legal entities referred to in parentheses. The coloured boxes denote entities forming part of one of EADS’ five Divisions. The non-coloured boxes denote entities that are holding

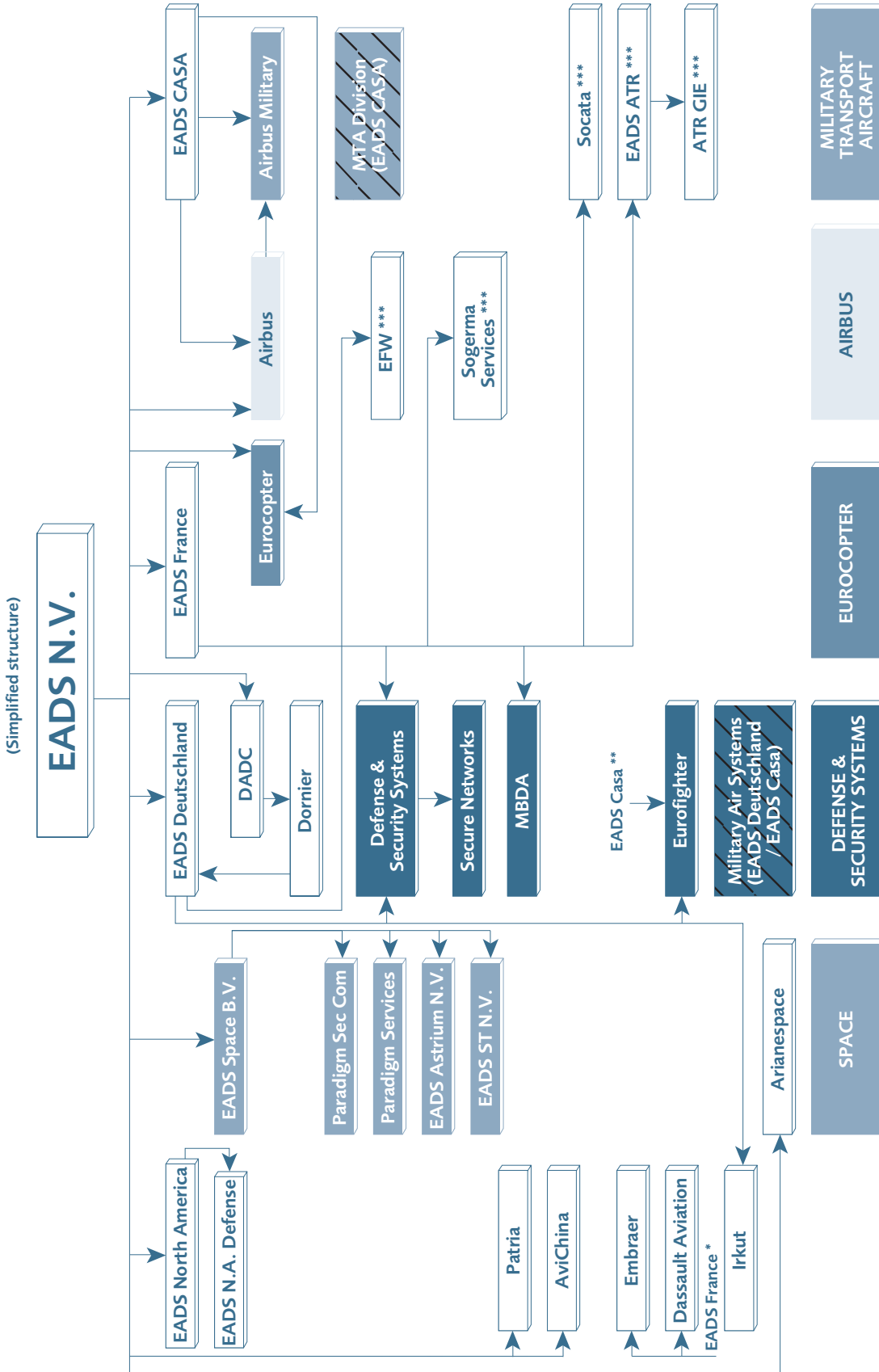
companies or participations not within one of EADS’ five Divisions and do not directly form part of the management responsibility of a specified director. Socata, EADS ATR, ATR GIE, EFW and Sogerma Services are ‘Other Businesses’ and do not form part of EADS’ five Divisions and EFW and Sogerma Services are under the direct responsibility of Gustav Humbert and EADS ATR, ATR GIE and Socata are under the direct responsibility of Hans Peter Ring. See “1.1.1 Overview – Organisation of EADS Businesses”.



# General Description of the Company and its Share Capital

## 3.3 Shareholdings and Voting Rights

### EADS Group main shareholdings



(\*) EADS holds its interest in Embraer and Dassault Aviation through EADS France.  
 (\*\*) EADS' interest in Eurofighter is jointly held by EADS Deutschland and EADS Casa.  
 (\*\*\*) In June 2005, the former Aeronautics Division, which included the Eurocopter, ATR, EFW, Socata and Sogerma Services BUs, was dissolved and a new Eurocopter Division was created. In the adapted segment reporting following this change, EADS allocated EFW, Sogerma Services, ATR and Socata to "Other Businesses" to reflect EADS' management responsibility and reporting structure. See 1.1.7 "Other Businesses".

### 3.3.7 Purchase by the Company of its Own Shares

#### 3.3.7.1 Dutch Law and Information on Share Buy-Back Programmes

Pursuant to Dutch insider trading laws and Commission Regulation (EC) No. 2273/2003, the Company is subject to conditions for share buy-back programmes and disclosure relating thereto, as described below.

Under Dutch Civil law, the Company may acquire its own shares, subject to certain provisions of the law of the Netherlands and the Articles of Association, if (i) the shareholders' equity less the payment required to make the acquisition does not fall below the sum of paid-up and called portion of the share capital and any reserves required by the law of the Netherlands and (ii) the Company and its subsidiaries would not thereafter hold or hold in pledge shares with an aggregate nominal value exceeding one-tenth of the Company's issued share capital. Share acquisitions may be effected by the Board of Directors only if the shareholders in general meeting have authorised the Board of Directors to effect such repurchases. Such authorisation may apply for a maximum period of 18 months.

Shares held by the Company do not carry voting rights. Usufructuaries and pledgees of shares that are held by the Company are, however, not excluded from their voting rights in such cases where the right of usufruct or pledge was vested before the share was held by the Company.

The annual shareholders' meeting of EADS held on 11th May 2005 authorised the Board of Directors, in a resolution that renewed the previous authorisation given by the annual shareholders' meeting of EADS held on 6th May 2004, for a period of 18 months from the date of such meeting, to repurchase shares of the Company, by any means, including by derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company shall not hold more than 5% of the Company's issued share capital and at a price not less than the nominal value and not more than the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

As of July 2005, the Company had purchased in aggregate 10,275,521 of its own shares, 1,336,358 of which were cancelled on 25th July 2005.

As of the date of this document, the Company had purchased in aggregate 3,686,270 of its own shares. In addition, 11 million of repurchased shares are being lent to a top ranking French financial institution within the framework of a securities lending agreement implemented as from 10th April to 2nd May 2006 inclusive.

A resolution will be submitted to the annual shareholders' meeting of EADS called for 4th May 2006 in order to supersede and replace the authorisation given by the annual shareholders' meeting held on 11th May 2005 and authorize the Board of Directors, for a new period of 18 months as from the date of such meeting, to repurchase shares of the Company, by any means, including by derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company shall not hold more than 10% of the Company's issued share capital and at a price not less than the nominal value and not more than the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

#### 3.3.7.2 French Regulations

As a result of its listing for trading on a regulated market in France, the Company is subject to the regulations summarised below.

Pursuant to Articles 241-1 to 241-6 of the AMF General Regulations, the purchase by a company of its own shares, in principle, requires the publication of the description of the share-buy programme. Such description must be published prior to the implementation of the share buy-back programme.

Under Articles 631-1 to 631-4 of the AMF General Regulations, a company may not trade in its own shares for the purpose of manipulating the market. Articles 631-5 and 631-6 of the AMF General Regulations also define the conditions for a company's trading in its own shares to be valid.

After purchasing its own shares, the Company is required to disclose, within at least seven trading days, specified information regarding such purchases by way of a release which is available to the public on the websites of the Company and the AMF. Additionally, the Company must notably report to the AMF, on at least a monthly basis, information concerning the cancellation of such repurchased shares.

#### 3.3.7.3 German Regulations

As a foreign issuer, the Company is not subject to German rules on trading in its own shares, which only apply to German issuers.

#### 3.3.7.4 Spanish Regulations

As a foreign issuer, the Company does not have to comply with the Spanish rules on trading in its own shares, which only apply to Spanish issuers.

However, according to the Conduct Rules under the Spanish Securities Act 24/1988 of 28th July 1988, the Company may not trade in its own shares for the purpose of manipulating the market.

#### 3.3.7.5 Description of the Share Buy-Back Programme to be Authorised by the Annual General Shareholders' Meeting to be held on 4th May 2006

Pursuant to Articles 241-2-I and 241-3-III of the AMF General Regulations, below is a description of the share buy-back programme ("*descriptif du programme*") to be implemented by the Company:

- **Date of the general shareholders' meeting to authorise the share buy-back programme to be held:** 4th May 2006.
- **Number of EADS shares and corresponding percentage of share capital held directly and indirectly by the Company:** 3,686,270 shares representing 0.45% of the share capital as at the date of this document.
- **Intended use of the EADS shares held by the Company as at the date of this document:**
  - The reduction of share capital by cancellation of all or part of the repurchased shares, in particular to avoid the dilution effect related to certain share capital increases for cash (i) reserved or to be reserved for employees of the EADS Group and/or (ii) carried out or to be carried out in the context of the exercise of stock options granted or to be granted to certain EADS Group employees: 3,636,270 shares; and

- The owning of shares for the performance of obligations related to employee share option programmes or other allocations of shares to the EADS Group employees: 50,000 shares.

In addition, 11 million of repurchased shares are being lent to a top ranking French financial institution within the framework of a securities lending agreement implemented as from 10th April to 2nd May 2006 inclusive.

For information on shares held by EADS at the date of the entry into force of EC Regulation n° 2273/2003 of 22nd December 2003 on 13th October 2004 and still held by EADS at the date of this document, see below.

- **Purposes of the share buy-back programme to be implemented by the Company (by order of decreasing priority, without any effect on the actual order of use of the buy-back authorisation, which shall be determined according to needs and possibilities):**
  - The reduction of share capital by cancellation of all or part of the repurchased shares, in particular to avoid the dilution effect related to certain share capital increases for cash (i) reserved or to be reserved for employees of the EADS Group and/or (ii) carried out or to be carried out in the context of the exercise of stock options granted or to be granted to certain EADS Group employees, it being understood that the repurchased shares shall not carry any voting or dividend rights;
  - The owning of shares for the performance of obligations related to:
    - (i) Debt financial instruments convertible into EADS' shares,
    - (ii) Employee share option programmes or other allocations of shares to the EADS Group employees;
  - The purchase of shares for retention and subsequent use for exchange or payment in the framework of potential external growth transactions; and
  - The liquidity or dynamism of the secondary market of the EADS shares carried out pursuant to a liquidity agreement to be entered into with an independent investment services provider in compliance with the decision of the AMF dated 22nd March 2005 related to approval of liquidity agreements recognised as market practices by the AMF.

- **Procedure:**

- Maximum portion of the issued share capital to be repurchased by the Company: 10%;
- Maximum number of shares to be repurchased by the Company upon authorisation by the general shareholders' meeting: the portion of 10% would represent 82,155,442 shares of the Company issued share capital representing 821,554,421 shares as of the date of this document. This maximum portion of 10% would represent 85,209,112 shares based on the 852,091,123 shares which would make up the entire fully-diluted share capital of the Company after the issue of 30,536,702 shares as a result of the exercise of stock options, which can still be exercised as of the date of this document, which the board of directors decided to grant to certain EADS Group employees in 2000, 2001, 2002, 2003, 2004 and 2005.
- Furthermore, the amounts to be paid in consideration for the purchase of the treasury shares must not, in accordance with applicable Dutch law, exceed the equity components which are, per se, repayable or distributable to the shareholders. "Equity components repayable or distributable to the shareholders" means the contribution premiums (in relation to contributions in kind), the issue premiums (in relation to cash contributions) and the other reserves as set out in the financial statements of EADS, from which the repurchase price for the treasury shares must be deducted.

As at 31st December 2005, the respective values of each of these EADS' equity components which are by nature repayable or distributable to the shareholders were: €8,459,000,000 (contribution premiums), €256,000,000 (issue premiums), €(386,000,000) (other reserves) and €(445,000,000) (treasury shares), i.e., an aggregate amount of €7,884,000,000.

EADS reserves the right to implement the share purchase programme to its full extent and undertakes not to exceed, directly or indirectly, the threshold of 10% of the issued share capital as well as the amount of €7,884,000,000 throughout the term of the programme.

Finally, EADS undertakes to maintain at any time a sufficient number of shares in public hands to meet the thresholds of Euronext Paris S.A.

- Shares may be bought or sold at any time (including during a public offering) to the extent authorised by the stock exchange regulations and by any means, including, without limitation,

that the part of the programme which may be carried out by means of sale or purchase of block trades and including the use of options, combinations of derivative financial instruments or the issue of securities giving rights in any way to EADS shares within the limits set out in this prospectus. Moreover, EADS will use call options and swap that have been acquired pursuant to the agreements it had entered into during the previous share repurchase programme (see below) and does not exclude the possibility of using a structure of transaction similar to the one that had been used in the previous share repurchase programme in order to repurchase its own shares.

The portion of shares repurchased by means of the use of block trades may amount to all the shares to be repurchased in the context of this programme.

In addition, in the event that derivative financial instruments are used, EADS shall ensure that it does not use mechanisms which would significantly increase the volatility of the shares in particular in the context of call options.

- Characteristics of the shares to be repurchased by the Company upon authorisation by the general shareholders' meeting: shares of EADS, a company listed on the *marché Eurolist* of Euronext Paris S.A., on the Amtlicher Handel market of the Frankfurt Securities Exchange ("*Frankfurter Wertpapierbörse*") and on the Madrid, Bilbao, Barcelona and Valencia Stock Exchanges.
- DaimlerChrysler, DC KG, the French State, Lagardère, SEPI, SOGEADE and SOGEPa will retain all of their rights, depending on the circumstances, to sell their available EADS shares to EADS as part of this share buy-back programme.
- Maximum purchase price per share: €70.
- **Term of the share buy-back programme:** this share repurchase programme shall be valid until 4th November 2007 inclusive, i.e., the date of expiry of the authorisation requested from the Annual General Meeting of 4th May 2006. One of the main aims of this EADS share repurchase programme is linked to the possible exercise by EADS Group employees of stock options granted to them in 2000, 2001 and 2002, it is currently intended (i) that such a programme be continued and renewed so that it expires on 9th August 2012 (8th August 2012 being the latest date upon which an employee of the EADS Group may exercise all or part of his/her stock options granted in 2002) and (ii) that the EADS annual general meeting be asked to renew the authorisations until such date.

# General Description of the Company and its Share Capital

## 3.3 Shareholdings and Voting Rights

### • Declaration by the Company of transactions carried out in relation to its own shares from 11th May 2005 to the date of this document:

Percentage of share capital held directly and indirectly:	1.79%
Number of shares cancelled during the last 24 months:	7,023,040
Number of shares held in portfolio:	14,686,270*
Book value of portfolio:	€m 277.9
Market value of portfolio:	€m 470.25

(\*) 11 million of repurchased shares are being lent to a top ranking French financial institution within the framework of a securities lending agreement implemented as from 10th April to 2nd May 2006 inclusive.

The 1,843,814 EADS shares held by EADS at the date of the entry into force of EC Regulation n° 2273/2003 of 22nd December 2003 on 13th October 2004 and still held by EADS at the date of this document shall be, in order of decreasing priority, either (i) cancelled pursuant to a decision to be made, according to Dutch law, by an EADS annual general meeting, to avoid the dilution effect related to certain share capital increases for cash carried out, during the fiscal year preceding such annual general meeting, in the context of an EADS employee share ownership programme and/or upon the exercise of stock options granted to certain EADS Group employees, or (ii) kept in order to allow the performance of certain obligations described within the aims of the share repurchase programme referred to in this document, or (iii) used for exchange or payment in the framework of a potential external growth transaction, or (iv) sold in the context of a liquidity agreement in compliance with the provisions of Instruction AMF No. 2005-07.

In addition, it is envisaged that the EADS Annual General Meeting to be held on 4th May 2006 be requested to

decide upon the cancellation of 6,656,970 repurchased shares to avoid the dilution effect related to the share capital increases for cash carried out (i) in the context of an EADS employee share ownership programme for 2005, the terms and characteristics of which are described in a prospectus approved by the AMF on 4th May 2005 under number 05-353, in an amount of 50% of the shares issued in such context (representing 969,155 shares) and (ii) upon the exercise in 2005 of stock options granted to certain EADS Group employees in 2000, 2001 and 2002 in an amount of 100% of the shares issued in such context (representing 5,687,815 shares).

As of the date of this document, EADS has not entered into any liquidity agreement with an independent investment services provider in the context of this share repurchase programme.

In the context of this share repurchase programme, EADS used derivative financial instruments (see below). These derivative financial instruments (call options) have the characteristics set out in the table below.

	Gross cumulative flows		Opening positions as of the date of this document			
	Purchases	Sales / Transfers (Exercise of Option)	Opening Position on the Purchase		Opening Position on the Sale	
Number of Shares	9,781,376	-	Call purchased 9,455,727	Forward sale	Call purchased	Sale
Average Maximum Maturity Date*			9th August 2012	-	-	-
Average Price of the Transaction*		-				
Average Exercise Price*		-	-	-	-	-
Total	€203,126,671	-				

(\*) See "Part 1 / 2.3.3 Options Granted to Employees".



A share repurchase programme is being implemented since 2004 in order to avoid the dilution effect related to the share capital increases in cash which would result from the exercise of the stock options granted to certain employees of the EADS Group in 2000, 2001 and 2002. This share repurchase programme is implemented according to the neutral delta method as a means of repurchase in order to compensate for the dilution effect of such stock option plans as approved by the Board of Directors on 5th December 2002 and 10th October 2003.

In relation to this repurchase programme, EADS entered into the following agreements: (i) call options agreements allowing EADS to acquire from a top ranking French bank a number of EADS' shares equal to the number of shares to be created as a result of the exercise of stock options granted to certain employees of the EADS Group in 2000, 2001 and 2002, and (ii) swap agreements for the periodical adjustment of an amount in cash equal to the premiums paid by EADS to a top ranking French bank pursuant to the call options agreements, in accordance with the neutral delta method.

Pursuant to these agreements, the call options which EADS acquired from a top ranking French bank, have the same terms (as to exercise prices, exercise dates, quantities and expiry dates) as the stock options granted pursuant to the 2000, 2001 and 2002 stock option plans. If the EADS share price increases, the top ranking French bank must buy the number of EADS shares which then derived from the increase in price according to the delta neutral method formula. The total amount paid for these shares by the top ranking French bank corresponds to the financial charge borne by EADS, as determined from the variable amounts in the swap agreement. On the other hand, in the case of a reduction in the EADS share price, the top ranking French bank must sell a number of EADS shares which derived from the reduction in the share price according to the neutral delta method formula. The total amount received by the top ranking French bank for the sale of these shares corresponds to the financial revenues received by EADS as determined from the variable amounts in the swap

contract. Under these conditions, the final amount due as a result of the purchases of the call options is only known at the time of the payment as determined from the last variable amount of the swap contract.

The structure of the transaction aims at covering off the dilution effect and the price risk for EADS linked to the exercise of stock options granted to certain EADS Group employees in 2000, 2001 and 2002.

Within this context, EADS uses the internal control procedures put in place by the Company in order to ensure the reliability of the management of the risks linked to these call options and swap. The procedures and tools for reporting have been set up, the responsibility and powers have been delegated to the Finance and Treasury department of EADS which has responsibility for all operational decisions and all activities within its competence. The relevant competent bodies within the organisation must be made aware of all substantial transactions, activities and risks.

From an accounting standpoint, the call options qualify as equity instruments, provided that they are physically settled in EADS' own stock (IAS 32.16). The initial accounting led to a reduction in cash balances for the premiums paid and in stockholder's equity for the same corresponding amount. With each variable payment made in application of the delta neutral method formula, there is a corresponding impact on cash and on equity to reflect the cumulative premiums paid on the call options. Upon exercise of the call options, EADS decreases cash by the amount paid (strike price times number of options) and deducts treasury shares from shareholder's equity. Variations in the market value of the call options are not recognised in the financial statements. All such transactions are therefore neutral on the income statement.

The top ranking French bank has contractually undertaken to comply with the regulations in force in relation to repurchase procedures applicable to EADS and in particular the provisions of Articles 241-1 to 241-6 and 631-1 *et seq.* of the General Regulations of the AMF.

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## 3.4 Dividends

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### 3.4.1 Dividends and Cash Distributions Paid Since the Incorporation of the Company

A cash distribution was paid in respect of the years 2000 and 2001 for a gross amount of €0.50 per share respectively on 27th June 2001 and 28th June 2002. In respect of the years 2002 and 2003, a cash distribution was paid for a gross

amount of €0.30 per share and €0.40 per share respectively paid on 12th June 2003 and 4th June 2004.

A cash distribution was paid in respect of the year 2004 for a gross amount of €0.50 per share and paid on 8th June 2005.

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### 3.4.2 Dividend Policy of EADS

The Board of Directors will recommend to the annual shareholders' meeting of EADS called for 4th May 2006 the level of attribution to reserves, and a cash distribution of a gross amount of €0.65 per share with respect to the year 2005.

The amount of the proposed cash distribution, up for the third consecutive year, results from the Company's performance during the year 2005. This distribution level also reflects Management's confidence in the Company's future earnings as the strength of the commercial aviation cycle – particularly due to Asian demand, and the increasing

profitability of defence and space activities suggest sustained growth.

Looking forward, EADS' Board of Directors has adapted its distribution policy, reflecting the belief that continuity and growth of dividends are desirable shareholder objectives, subject to factors such as EADS' distribution capacity arising from performance, its priorities for cash utilisation and future prospects. However, no assurance may be given in respect of the proposed dividend levels for the years 2006 onwards. (See also "3.1.9 Allocation and Distribution of Income").

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### 3.4.3 Unclaimed Dividends

Pursuant to Article 31 of the Articles of Association, the claim for payment of a dividend or other distribution approved by the general meeting shall lapse five years after the day on which such claim becomes due and payable.

The claim for payment of interim dividends shall lapse five years after the day on which the claim for payment of the dividend against which the dividend could be distributed becomes due and payable.

### 3.4.4 Taxation

The statements below represent a broad analysis of the present Netherlands tax laws. The description is limited to the material tax implications for a holder of the Company's shares (the "**Shares**") who is not, or is not treated as, a resident of the Netherlands for Netherlands tax purposes (a "**Non-Resident Holder**"). Certain categories of holders of the Company's shares may be subject to special rules which are not addressed below and which may be substantially different from the general rules described below. Investors who are in doubt as to their tax position in the Netherlands and in their state of residence should consult their professional advisors.

#### Withholding Tax on Dividends

In general, a dividend distributed by the Company in respect of Shares will be subject to a withholding tax imposed by the Netherlands at a statutory rate of 25%. Dividends include dividends in cash or in kind, deemed and constructive dividends, repayment of paid-in capital not recognised as capital for Netherlands dividend withholding tax purposes, and liquidation proceeds in excess of the average paid-in capital recognised as capital for Netherlands dividend withholding tax purposes. Stock dividends paid out of the Company's paid-in-share premium, recognised as capital for Netherlands dividend withholding tax purposes, will not be subject to this withholding tax.

A Non-Resident Holder of Shares can be eligible for a partial or complete exemption or refund of all or a portion of the above withholding tax under a tax convention that is in effect between the Netherlands and the Non-Resident Holder's country of residence. The Netherlands has concluded such conventions with the U.S., Canada, Switzerland, Japan, almost all European Union member states and other countries.

#### French, German, and Spanish Tax Treaties

Under the Convention between the Republic of France and the Kingdom of the Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, concluded

16th March 1973, the Convention between the Federal Republic of Germany and the Kingdom of the Netherlands for the Avoidance of Double Taxation with respect to Income and Capital and Various Other Taxes and for the Regulation of Other Questions relating to Taxation, concluded 16th June 1959 or the Convention between the Government of the State of Spain and the Government of the Kingdom of the Netherlands for the Avoidance of Double Taxation with respect to Taxes on Income and Capital, concluded 16th June 1971, dividends paid by the Company to a Non Resident Holder that is a resident of France, Germany or Spain as defined in the respective Convention are generally eligible for a reduction of the 25% Netherlands withholding tax to 15%, provided that the dividends are not attributable to an enterprise or part thereof which is carried on through a permanent establishment or permanent representative in the Netherlands.

#### Withholding Tax on Sale or Other Dispositions of Shares

Payments on the sale or other dispositions of Shares will not be subject to Netherlands withholding tax, unless the sale or other disposition is, or is deemed to be, made to the Company or a direct or indirect subsidiary of the Company. A redemption or sale to the Company or a direct or indirect subsidiary of the Company will be treated as a dividend and will in principle be subject to the rules set forth in "Withholding Tax on Dividends" above.

#### Taxes on Income and Capital Gains

A Non-Resident Holder who receives dividends distributed by the Company on Shares or who realizes a gain from the sale or disposition of Shares, will not be subject to Netherlands taxation on income or capital gains unless:

- such income or gain is attributable to an enterprise or part thereof which is either effectively managed in the Netherlands or carried on through a permanent establishment ("*vaste inrichting*") or permanent representative ("*vaste vertegenwoordiger*") in the Netherlands; or

## General Description of the Company and its Share Capital

### 3.4 Dividends

- the Non-Resident Holder is not an individual and the Non-Resident Holder has, directly or indirectly, a substantial interest (*“aanmerkelijk belang”*) or a deemed substantial interest in the Company and such interest does not form part of the assets of an enterprise, or
- the Non-Resident Holder is an individual and (i) the Non-Resident Holder has, directly or indirectly, a substantial interest (*“aanmerkelijk belang”*) or a deemed substantial interest in the Company and such interest does not form part of the assets of an enterprise, or (ii) such income or gain qualifies as income from miscellaneous activities (*“belastbaar resultaat uit verage werkzaamheden”*) in the Netherlands as defined in the Dutch Income Tax Act 2001 (*“Wet inkomstenbelasting 2001”*).

Generally, a Non-Resident Holder of Shares will not have a substantial interest in the Company’s share capital, unless the Non-Resident Holder, alone or together with certain related persons holds, jointly or severally and directly or indirectly, Shares in the Company, or a right to acquire Shares in the Company representing 5% or more of the Company’s total issued and outstanding share capital or any class thereof. A deemed substantial interest exists if all or part of a substantial interest has been or is deemed to have been disposed of with application of a roll-over relief.

### Gift or Inheritance Taxes

Netherlands gift or inheritance taxes will not be levied on the transfer of Shares by way of gift, or upon the death of a Non-Resident Holder, unless:

- the transfer is made by or on behalf of a person who, at the time of the gift or death, is or is deemed to be resident in the Netherlands; or
- the Shares are attributable to an enterprise or part thereof that is either effectively managed in the Netherlands or carried on through a permanent establishment or a permanent representative in the Netherlands.

### Value-Added Tax

No Netherlands value-added tax is imposed on dividends on the Shares or on the transfer of the Shares.

### Other Taxes and Duties

There is no Dutch registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty other than court fees payable in the Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of the Netherlands) with respect to the dividends relating to the Shares or on the transfer of the Shares.

### Residence

A Non-Resident Holder will not become resident, or be deemed to be resident, in the Netherlands solely as a result of holding a Share or of the execution, performance, delivery and/or enforcement of rights in respect of the Shares.

## 3.5 Annual Securities Disclosure Report

The list of the following announcements comprises the regulatory disclosures relating to price sensitive information which can be accessed through the Company's website at [www.eads.com](http://www.eads.com):

First Quarter 2005 Results press release	9th May 2005
First Half 2005 Results press release	27th July 2005
Third Quarter 2005 Results press release	9th November 2005
2005 Annual Results press release	8th March 2006
Press Release – "DaimlerChrysler and Lagardère reduced their respective stake in EADS by 7.5%"	4th April 2006

In addition, EADS publishes announcements made in the ordinary course of business which are also available through its website at [www.eads.com](http://www.eads.com).

This section constitutes the annual securities disclosure report in application Article 10 of the EC Directive 2003/71.





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# 4

## Entity Responsible for the Registration Document

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- 4.1 Entity Responsible for the Registration Document p. 134
- 4.2 Statement of the Entity Responsible for the Registration Document p. 134
- 4.3 Information Policy p. 135
- 4.4 Undertakings of the Company Regarding Information p. 135

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## Entity Responsible for the Registration Document

### 4.2 Statement of the Entity Responsible for the Registration Document

# 4.1 Entity Responsible for the Registration Document

EADS.

# 4.2 Statement of the Entity Responsible for the Registration Document

The Company declares that, having taken all reasonable care to ensure that such is the case, the information contained in the Registration Document is, to the best of the Company's knowledge, in accordance with the facts and contains no omission likely to affect its import.

EADS represented by:

Thomas Enders

*Chief Executive Officer*

Noël Forgeard

*Chief Executive Officer*

## 4.3 Information Policy

Details of the person responsible for information:

Mr. Pierre de Bausset  
Senior Vice President Investor Relations and Financial  
Communication

EADS  
81663 Munich  
Germany  
Telephone: + 49 89 607 34113  
Fax: + 49 89 607 34110  
E-mail: ir@eads.com

A website, [www.eads.com](http://www.eads.com), provides a wide range of information on the Company, including the Board of Directors Report. Additionally, for the life of this Registration Document, copies of EADS's Articles of

Association and any reports, letters, other documents, historical financial information, valuations or statements prepared by any expert at EADS' request that are included or referred to herein, as well as EADS' historical financial information and historical financial information with respect to EADS' subsidiary undertakings for 2005 and 2004, may be inspected at EADS' registered office at: European Aeronautic Defence and Space Company EADS N.V., Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, the Netherlands, Seat (*statutaire zetel*): Amsterdam, Tel: +31 20 655 48 00.

Special toll-free hotlines are available to shareholders in France (0 800 01 2001), Germany (00 800 00 02 2002) and Spain (00 800 00 02 2002). An e-mail box is dedicated to shareholders' messages: ir@eads.com.

## 4.4 Undertakings of the Company Regarding Information

Given the fact that the shares of the Company are listed on the *Marché Eurolist* of Euronext Paris SA (the "**Paris Stock Exchange**"), in *amtlicher Markt* (in the sub-segment *Prime Standard*) on the *Frankfurter Wertpapierbörse* (the "**Frankfurt Stock Exchange**") and on the Madrid, Bilbao, Barcelona and Valencia Stock Exchanges (the "**Spanish**

**Stock Exchanges**"), the Company is subject to certain laws and regulations applicable in France, Germany and Spain in relation to information, the main ones of which are summarised in "3.1.3 Governing Law — Dutch Regulations".







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and Space Company EADS N.V.  
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[www.eads.com](http://www.eads.com)

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