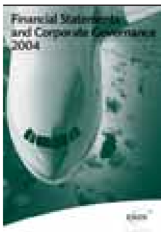
Financial Statements and Corporate Governance 2004

EADS

The step beyond

The complete EADS Annual Report Suite 2004 consists of:

EADS Annual Review 2004 (1)



EADS Financial Statements and Corporate Governance 2004 (2)

EADS Business and Legal Description 2004 (3) (available upon request)

The online version of the EADS Annual Report Suite 2004 is available at the Investor Relations section of www.eads.com

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

This Reference Document was filed in French with the *Autorité des marchés financiers* on 19th April 2005 pursuant to Articles 211–1 to 211–42 of the General Regulations of the *Autorité des marchés financiers*. It may be used in support of a financial transaction only if it is supplemented by a transaction note approved by the *Autorité des marchés financiers*.

Warning

The AMF draws the attention of the public to the fact that:

European Aeronautic Defence and Space Company EADS N.V. (**"EADS"** or the **"Company"**) 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 Reference Document.

This document contains information which forms an integral part of EADS' Reference Document filed with the Autorité des marchés financiers on 19th April 2005. When used as a Reference Document, it must be read in conjunction with the document entitled Business and Legal Description 2004 (Reference Document Part 2).

EADS Annual Report 2004

Part 1 (Financial Statements and Corporate Governance)

AUTORITÉ
DES MARCHÉS FINANCIERS

AMF

This Reference Document was filed in French with the *Autorité des marchés financiers* on 19th April 2005 pursuant to Articles 211-1 to 211-42 of the General Regulations of the *Autorité des marchés financiers*. It may be used in support of a financial transaction only if it is supplemented by a transaction note approved by the *Autorité des marchés financiers*.

Warning

The AMF draws the attention of the public to the fact that:

European Aeronautic Defence and Space Company EADS N.V. (''**EADS**'' or the ''**Company**'') 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 Reference Document.

This document contains information which forms an integral part of EADS' Reference Document filed with the *Autorité des marchés financiers* on 19th April 2005. When used as a Reference Document, it must be read in conjunction with the document entitled Business and Legal Description – 2004 (Reference Document Part 2).

Financial Statements and Corporate Governance – 2004

Reference Document (Part 1)

Financial year 2004

Financial Policy

A message from the Chief Financial Officer

Dear shareholders, customers and employees,

As you will see from the following pages, over-achieving has become a hallmark of EADS' financial culture: Again in 2004, we can be proud of the sound performance that EADS has delivered, and the way in which it has seized its opportunities and confronted its challenges.

First and foremost, the strong 2004 earnings arise from higher sales volumes, from better Airbus product mix, from greater competitiveness due to progressive streamlining, and from the subsidence of external hazards and of programme risks. One-off events and non-cash profits added to our otherwise strong results. The significant increase of the year-end cash position attests to the quality of these results.

For the fifth consecutive year, order intake exceeded revenues, producing an unmatched order book, in spite of the severe devaluation of the U.S. dollar. It is testimony to EADS' foresight that, early on, it recognised the currency threat to its competitiveness and designed targeted cost savings programs such as Airbus Route 06. These, combined with the benefits of higher sales volumes, allow us to assess new transactions, capture business and preserve long-term profitability under a very degraded exchange rate assumption. Yet we have no room for complacency. We will continue the drive to perfect our operations and to reduce our dependence on the U.S. currency.

Indeed, one motivation behind our Global Industrial Strategy is achieving a better match between the currencies of revenues and costs. More importantly, the Global Industrial Strategy explores the potential for expansion of EADS operations, partnerships, sourcing and sales in key countries. In support of it, the EADS Finance community is providing conceptual financial tools and expertise to guide our globalization and to steer our commercial line of attack. We are also instilling our shareholder value priority into the inter-disciplinary task forces devoted to this initiative.

One example of the Finance community's role in developing new EADS activities lies in how the Air Tanker consortium for the FSTA won preferred bidder status from the U.K. MOD. Our finance team can take credit for its key role in negotiating this outcome and for its ability to propose solutions "that fly".

Extending our international reach adds urgency and relevance to the reinforcement and integration of EADS processes. In 2004, our effort to equip ourselves with state-of-the-art Risk Management and Internal Control procedures gathered steam. Our goals significantly exceed compliance with relevant legislation and adherence to best practices. They include being "best-in-class" with sensible systems that truly enhance the transparency of the Company and its early warning capabilities. Combined with our new integrated group-wide "financial warehouse", this will enable us to advance the quality, reliability and availability of financial information. We aim for world-class efficiency in Finance – the onus is on us to constantly re-examine our key processes.

In recent years, against the backdrop of the aviation industry slump and of the weak macro-economic environment, EADS has established itself as a model of solidity and of reliability in its communication and action. In this period of management transition, continuity will take the form of a renewed allegiance to transparency and of a steadfast commitment to shareholder value. This means establishing ambitious goals, reporting performance conservatively and communicating targets prudently. In this way we will further improve our shareholders' and stakeholders' confidence in our ability to deliver dependable growth.

This also means exercising restraint in the deployment of our cash resources. While the ramping up of Airbus deliveries and of A380 production will absorb cash, we must ensure we can control working capital requirement through reduced cycle times. We plan to reduce capital expenditure as soon as 2005, and will remain thrifty if appraising future investments. Profits flow from improved gearing, not from market share.

Issues of perimeter and industry consolidation always receive the greatest care. As custodians of our shareholders' trust, we will continue to seek transactions founded on realistic strategies, providing profit growth through actionable synergies, unbound by transactional risks, and of course "at the right price".

Divestments remain part of our toolbox. And decisions of sizeable impact will be subject to tight governance rules.

We believe the latest civil aviation downturn is now relegated to history, and with our best product range ever, our confidence has never had stronger foundations. We will make the EADS name stand for Value and for Growth!

Yours truly,

Hans Peter Ring
Chief Financial Officer

Chapter 1
Net Assets –
Financial Position – Results

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations

1.1.1 Certain Information

In addition to historical information, this document includes forward-looking statements. The forward-looking statements are generally identified by the use of forward-looking words, such as "anticipate", "expect", "estimate", "intend", "plan", "predict", "project", "will", "believe", "should", "may" or other variations of such terms, or by discussion of strategy. These statements relate to EADS' future prospects, developments and business strategies and are based on analyses or forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements represent the view of EADS only as of the dates they are made, and EADS disclaims any obligation to update forward-looking statements, except as may be otherwise required by law. The forward-looking statements in this document involve known and unknown risks, uncertainties and other factors that could cause EADS' actual future results, performance and achievements to differ materially from those forecasted or suggested herein. These include changes in general economic and business conditions, as well as the factors described in "1.4 Risk Factors".

The following discussion is based upon the audited consolidated financial statements of EADS for 2004, 2003 and 2002, prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board (together, the "**Financial Statements**"). As from 1st January 2004, EADS early adopted IFRS 3 "Business Combinations" and revised International Accounting Standard ("**IAS**") 36 "Impairment of Assets" and IAS 38 "Intangible Assets", with the effect of no longer amortising goodwill. In 2003, EADS changed its accounting policy for the treatment of development costs in order to fully comply with IAS 38. See "– 1.1.3 Critical Accounting Considerations, Policies and Estimates – Research and Development Expenses" and "Notes to IFRS Consolidated Financial Statements – Note 2: Summary of Significant Accounting Policies" and "Note 11: Intangible Assets".

Exchange Rate Information

The financial information presented in this document is expressed in Euro, U.S. dollars or Pounds Sterling. The following table sets out, for the periods indicated, certain information concerning the exchange rate between the Euro and the U.S. dollar and Pound Sterling, calculated using the official European Central Bank fixing rate:

	Average		Period End	
Year ended	€-U.S. $	€-£	€-U.S. $	€-£
31st December 2002	0.9451	0.6505	1.0487	0.6424
31st December 2003	1.1304	0.6919	1.2630	0.7048
31st December 2004	1.2438	0.6787	1.3621	0.7051

Ratings

EADS currently is rated A3 with a stable outlook by Moody's, A with a stable outlook by Standard and Poor's and A with a stable outlook by Fitch IBCA.

1.1.2 Overview

With consolidated revenues of €31.8 billion for 2004, 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 (surpassing Boeing in terms of deliveries and orders in 2003 and 2004), civil helicopters, commercial space launch vehicles and missiles, and a leading supplier of military aircraft, satellites and defence electronics. In 2004, it generated approximately 76% of its total revenues in the civil sector and 24% in the defence sector. As of 31st December 2004, EADS' active headcount was 110,662.

EADS organises its businesses into the following five operating divisions:

- **Airbus:** Development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats and the development and manufacturing of aircraft for military use;
- **Military Transport Aircraft:** Development, manufacturing, marketing and sale of military transport and special mission aircraft;
- **Aeronautics:** Development, manufacturing, marketing and sale of civil and military helicopters, regional turboprop aircraft and light commercial aircraft; civil and military aircraft conversion and maintenance services;
- **Defence & Security Systems:** Development, manufacturing, marketing and sale of missile systems; military combat aircraft and training aircraft; provision of defence electronics and defence-related telecommunications solutions; and logistics, training, testing, engineering and other related services; and
- **Space:** Development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers; and provision of space services.

In general, these manufacturing businesses are characterised by long-term product cycles. Another significant characteristic of many of these businesses is the extent of their dependence on governmental budgets.

In 2003, as part of the restructuring of the former Defence and Civil Systems Division, the Military Aircraft business unit of the Aeronautics Division was transferred to the newly organized Defence & Security Systems ("**DS**") Division. 2002 segment information for the two divisions has been adjusted to reflect this transfer.

1.1.3 Critical Accounting Considerations, Policies and Estimates

1.1.3.1 Scope of and Changes in Consolidation Perimeter

Disposals and acquisitions of interests in various businesses can account, in part, for differences in EADS' results of operations for one year as compared to another year.

Airbus: Airbus is fully consolidated by EADS in light of the effective control EADS has exercised, by agreement with BAE SYSTEMS, over the assets, liabilities and operations of Airbus since 1st January 2001.

MBDA: EADS and BAE SYSTEMS each hold a 37.5% stake in MBDA, with Finmeccanica holding the remaining 25%. Pursuant to the shareholder agreements relating to the MBDA group, EADS and BAE SYSTEMS together exercise certain controlling rights over MBDA through MBDA Holdings, including the right of MBDA Holdings to appoint MBDA's CEO, COO-Operations and CFO.

EADS proportionally consolidates 50% of MBDA within the DS Division, consistent with its ability to jointly control operations, with Finmeccanica's holding reflected as a 12.5% minority interest.

Acquisitions and Disposals: On 4th October 2004, EADS acquired, from RIG Holdings L.P., 100% of the share capital of RIG Holdings, Inc., the holding company of Racal Instruments U.S. and Racal Instruments Group Ltd. (together, "**Racal Instruments**") for a cash amount of U.S.$130 million. From the acquisition date, and as reflected in the 31st December 2004 consolidated balance sheet, EADS fully consolidates Racal Instruments. Racal Instrument's 2004 net results for the period from 4th October through 31st December are included in the EADS 2004 consolidated statement of income.

On 30th January 2003, EADS acquired BAE SYSTEMS' 25% interest in Astrium N.V., control of which transferred to EADS on the same date. Astrium was fully consolidated by EADS beginning in fiscal year 2003.

On 18th September 2003, EADS acquired the remaining 41% interest in EADS Telecom France S.A.S. from Nortel Networks as part of an exchange for EADS' interests in Nortel Networks Germany GmbH & Co. KG and Nortel Networks France S.A.S. Following this acquisition, EADS held 100% of EADS Telecom France S.A.S.

On 21st October 2003, EADS, through its subsidiary DADC, acquired an additional 17.7% of the share capital of Dornier GmbH for €62 million, bringing its total stake in Dornier GmbH to 94%.

On 6th March 2002, EADS sold its interest in the Aircelle joint venture to Snecma, generating a disposal gain of €63 million.

See "Notes to IFRS Consolidated Financial Statements – Note 4: Acquisitions and Disposals".

1.1.3.2 Fair Value Adjustments

The merger of the operations of ASM, Dasa and CASA, leading to the creation of EADS in 2000, was recorded using the purchase method of accounting with ASM as the acquirer. Accordingly, the book value of certain assets and liabilities, mainly property, plant and equipment and inventories, was adjusted by an aggregate amount of €1.8 billion, net of income taxes, to allocate a portion of the respective fair market values of Dasa and CASA at the time of the merger (the "**fair value adjustments**"). These aggregate additions in value are generally being depreciated over four to fifteen years for fixed assets and amortised over approximately 24 months for inventories. In addition, in 2001 in connection with the formation of Airbus S.A.S., EADS adjusted the book value of Airbus fixed assets and inventories by an aggregate amount of €0.3 billion, net of income taxes, to reflect their fair market values. The fair value adjustments lead to a depreciation expense in the consolidated statements of income classified within cost of sales. For management reporting purposes, EADS treats these depreciation charges as non-recurring items in EBIT pre-goodwill amortisation and exceptionals. See "– 1.1.4 Measurement of Management's Performance – Use of EBIT*".

1.1.3.3 Impairment of Assets

When a triggering event, such as an adverse material market event or a significant change in forecasts or assumptions, occurs, EADS performs an impairment test on the assets, group of assets, subsidiaries, joint ventures or associates likely to be affected. Following its early adoption of revised IAS 36, as from 1st January 2004, EADS tests goodwill for impairment at the end of each fiscal year, whether or not

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

there is any indication of a triggering event. Generally, the discounted cash flow method is used to determine the value of the assets. The discounted cash flow method is sensitive to the selected discount rate and estimate of future cash flows by EADS' management ("**Management**"). Consequently, slight changes to these elements can materially affect the resulting asset valuation and therefore the amount of the potential impairment charge.

The discount rate used by EADS is derived from the Group's weighted average cost of capital, adjusted to reflect the riskiness of the business concerned. See "Notes to IFRS Consolidated Financial Statements – Note 2: Summary of Significant Accounting Policies – Impairment of Assets".

The impairment of goodwill has an effect on profitability, as it is recorded in the line item "other expense" on EADS' consolidated statement of income. While no goodwill was impaired in 2004 or 2003, impairment tests in 2002 on the net assets of businesses in the Space Division resulted in a goodwill impairment charge of €350 million relating to the commercial space business.

See "– 1.1.5 EADS Results of Operations – Consolidated Amortisation of Goodwill and Impairment Losses" and "Notes to IFRS Consolidated Financial Statements – Note 11: Intangible Assets" and "Note 29: Investment Property".

1.1.3.4 Research and Development Expenses

Since 2003, with the application of IAS 38 ("Intangible Assets"), the EADS group (the "**Group**") has assessed whether product-related development costs qualify for capitalisation as internally generated intangible assets. Criteria for capitalisation recognition are strictly applied. Consequently, all research and development costs not meeting the IAS 38 criteria are expensed as incurred in the consolidated statement of income.

Current and previous research and development programs have been reviewed to determine the extent to which expenses in the development phase of such programs potentially meet the recognition criteria of IAS 38. As a result of the transition to IAS 38 in 2003, EADS capitalised €4 million of product-related development costs incurred in 2003 as internally generated intangible assets. For 2004, €165 million of product-related development costs were capitalised in accordance with IAS 38, including €152 million relating to the Airbus A380 programme.

EADS considers that, due to the complexity of its products (especially civil aircraft, such as the A380), processes carried out in the various research and development phases are too intertwined to allow a proper distinction between these phases and to assign an economic value prior to the very late stages of particular programs. In addition, the absence in prior years of systems able to gather the relevant information prevents EADS from retroactively allocating costs for previous R&D programs, as required by IAS. Consequently, the 2002 and prior-year financial statements have not been changed by the application of IAS 38.

1.1.3.5 Accounting for Hedged Foreign Exchange Transactions in the Financial Statements

Approximately two-thirds of EADS' revenues are denominated in U.S. dollars, whereas the major portion of its costs is incurred in Euro. As the Group intends to generate profits only from its operations and not through speculation on foreign currency exchange rate movements, EADS uses hedging strategies to manage and minimise the impact of exchange rate fluctuations on these profits. See "– 1.1.8 Management of Market Risks – Exchange Rate Risk" and "1.4.1 Market Risks – Exposure to Foreign Currencies".

Historically, EADS' currency hedge portfolio consisted of both micro and macro hedges, the accounting for which differs as explained below. As a result of the IAS 39 ("Financial Instruments: Recognition and Measurement") cash flow hedging treatment applied to the majority of EADS' hedge portfolio since 2001, the significant variations in financial income that EADS experienced in earlier periods are significantly reduced and changes in net income are more in line with variations in operating income than they had been in such earlier periods.

Micro Hedges. When hedges form a hedging relationship with customer orders to which they specifically relate, they qualify for IAS 39 hedge accounting and are referred to as "micro" hedges. Revenues from such customer orders are recorded in Euro at the hedged rate and the impact of the hedges is recognised in gross margin and operating income at the time of revenue recognition. At the end of each accounting period, the value of each outstanding micro hedge contract is marked-to-market in the balance sheet on the basis of the then prevailing forward exchange rate. See "– 1.1.6 Statement of Changes in Consolidated Shareholders' Equity". For products such as aircraft, EADS typically hedges the first forecasted highly probable future cash inflows for a given month based upon final payments at delivery. See "– 1.1.8 Management of Market Risks – Exchange Rate Risk".

Micro hedges associated with transactions that are cancelled or postponed for more than a relatively short period are deemed terminated for accounting purposes. The sum of (i) changes in the fair value of these hedges since 1st January and (ii) a reversal of the portion of accumulated other comprehensive income ("**AOCI**") corresponding to these hedges prior to 1st January, are then recorded in revenues and deferred tax income (loss) in the consolidated statement of income.

Macro Hedges. Hedges that do not relate to a specified customer order, referred to as "macro" hedges, do not qualify for IAS 39 hedge accounting treatment. Unlike micro hedges, macro hedges do not have an impact on gross margin or operating income, even though they initially were intended to hedge cash flows from deliveries. Upon maturing, they are accounted for in the line item "financial result". At the end of each accounting period, each outstanding macro hedge contract is marked-to-market on the basis of the then prevailing forward exchange rate. Changes in mark-to-market values (before related deferred taxes) from the previous accounting period are recorded in the line item "other financial result" in the consolidated statement of income.

On 1st January 2001, most macro hedges then outstanding were tied to specified customer orders and thereby qualified for IAS 39 micro hedge accounting treatment. These hedges were ascribed an implicit conversion rate corresponding to the forward Euro-U.S. dollar exchange rate frozen at 31st December 2000. As of 1st January 2003, there were no longer any outstanding sales-related macro hedges not tied to specified customer orders.

Revenues in currencies other than the Euro that are not hedged through financial instruments are translated into Euro at the spot exchange rate at the date the underlying transaction occurs.

1.1.3.6 Accounting for Foreign Currency Denominated Operations in the Financial Statements

Following the signature of an Advance Pricing Agreement with tax authorities in April 2004, the Airbus GIE (a U.S. dollar-denominated entity) was merged into Airbus SAS (a Euro-denominated entity) with retroactive effect as of 1st January 2004. Consequently, as from such date, operations of the former Airbus GIE are treated as "foreign currency operations" and accounted for in accordance with EADS' consistently applied accounting principles.

Prior to the merger, Airbus GIE operations, with the exception of those hedged with financial instruments, were recorded at the exchange rate prevailing at the time of aircraft delivery, with outstanding operations being re-valued in the balance sheet at each period end using the closing exchange rate of such period. From 1st January 2004, all U.S. dollar-denominated operations, including outstanding operations of the former Airbus GIE, are recorded on the basis of exchange rates prevailing at the date of receipt or payment of U.S. dollars. See "Notes to IFRS Consolidated Financial Statements – Note 5: Segment Reporting".

In particular, customer advances (and the corresponding revenues recorded when sales recognition occurs) are now translated at the exchange rate prevailing on the date they were received. U.S. dollar-denominated costs are converted at the exchange rate prevailing on the date they are incurred. To the extent that U.S. dollar-denominated customer advances differ, in terms of timing of receipt or amount, from corresponding U.S. dollar-denominated costs, there will be a foreign currency exchange impact on EBIT*. Additionally, the magnitude of any such difference, and the corresponding impact on EBIT*, will be sensitive to variations in the number of deliveries. See "– 1.1.4 Measurement of Management's Performance – EBIT* Performance by Division" for a discussion of these effects in 2004 on Airbus' EBIT*.

1.1.3.7 Accounting for Sales Financing Transactions in the Financial Statements

In order to support product sales, primarily at Airbus and ATR, EADS may agree to participate in the financing of customers, on a case-by-case basis, directly or through guarantees provided to third parties. Certain sales contracts may include the provision of an asset value guarantee ("**AVGs**"), whereby Airbus or ATR guarantee a portion of the market value of an aircraft during a limited period, starting at a specific date after its delivery (in most cases, 10 years post-delivery). See "– 1.1.7 Liquidity and Capital Resources – Sales Financing" and "Notes to IFRS Consolidated Financial Statements – Note 25: Commitments and Contingencies". The accounting treatment of sales financing transactions varies based on the nature of the financing transaction and the resulting exposure.

On Balance Sheet. When, pursuant to a financing transaction, the risks and rewards of ownership of the financed aircraft reside with the customer, the transaction is characterised as either a loan or a financial lease. In such instances, revenues from the sale of the aircraft are recorded upon delivery, while financial interest is recorded over time as financial income. The outstanding balance of principal is recorded on the balance sheet in other long-term financial assets, net of any accumulated impairments. See "Notes to IFRS Consolidated Financial Statements – Note 13: Investments in Associates, Other Investments and Long-term Financial Assets".

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

By contrast, when the risks and rewards of ownership remain with Airbus or ATR, the transaction is characterised as an operating lease. EADS' general policy is to avoid, whenever possible, operating leases for new aircraft to be delivered to customers. Therefore, new operating leases primarily arise in connection with the re-marketing of repurchased or repossessed aircraft. Rather than recording 100% of the revenues from the "sale" of the aircraft at the time of delivery, rental income from such operating leases is recorded in revenues over the term of the respective leases. The leased aircraft are recorded at production cost on the balance sheet as tangible assets, the corresponding depreciation and potential impairment charges are recorded in cost of sales and the amount of cash received at delivery is recorded as deferred income. See "Notes to IFRS Consolidated Financial Statements – Note 12: Property, Plant and Equipment".

If the present value of an AVG exceeds 10% of the sales price of the aircraft, the sale of the underlying aircraft is accounted for as an operating lease in the Financial Statements. In this case, upon aircraft delivery, the cash payment received from the customer is recognised on the consolidated balance sheet as deferred income and amortised straight-line to the amount, and up to the last exercise date, of the AVG. The production cost of the aircraft is recorded in tangible assets, and the difference between production cost and the AVG amount is depreciated up to the last exercise date of the AVG. Depreciation expenses are recorded in cost of sales in the consolidated statement of income. See "Notes to IFRS Consolidated Financial Statements – Note 12: Property, Plant and Equipment" and "Note 22: Deferred Income".

Off Balance Sheet – Contingent Commitments. Certain sales financing commitments, such as lease in/lease out structures and AVGs where the present value is below the 10% threshold, are not recorded on the balance sheet.

As a result, transactions relating to such AVGs are accounted for as sales, with the related exposure deemed to be a contingent commitment. To reduce exposure under AVGs and to minimise the likelihood of their occurrence, Airbus and ATR extend them with prudent guaranteed asset values and restrictive exercise conditions, including limited exercise window periods. AVGs are generally not expected by Management to be exercised.

Under lease in/lease out structures, which Airbus and ATR applied in the past to allow customers with weaker credit to take advantage of certain jurisdictions' leasing-related tax benefits, the risks and rewards of ownership of the aircraft are typically borne by a third party, usually referred to as the head lessor. The head lessor leases the aircraft to Airbus or ATR, which in turn sub-leases it to the customer. To the extent possible, the terms of the head lease and sub-lease match payment streams and other financial conditions. Such commitments by Airbus or ATR are reported as off-balance sheet contingent liabilities. See "Notes to IFRS Consolidated Financial Statements – Note 25: Commitments and Contingencies".

Provisions and Allowances. Under its provisioning policy for sales financing risk, EADS records provisions to fully cover its estimated financing and asset value net exposure. Provisions pertaining to sales financing exposure, whether on-balance sheet or off-balance sheet, are recorded as impairments of the related assets or in provisions. Provisions recorded as liabilities relate primarily to off-balance sheet commitments. See "Notes to IFRS Consolidated Financial Statements – Note 19 (d): Other Provisions". Provisions are recorded as impairments of the related assets when they can be directly related to the corresponding asset. See "Notes to IFRS Consolidated Financial Statements – Note 12: Property, Plant and Equipment" and "Note 13: Investments in Associates, Other Investments and Long-term Financial Assets". While Management views its estimates of valuations of collateral as conservative, changes in provisions reflecting revised estimates may have a material impact on net income in future periods.

1.1.4 Measurement of Management's Performance

1.1.4.1 Order Backlog

Year-end order backlog represents firm future revenues from contracts signed up to that date. EADS uses order backlog as a measure of commercial performance, and growth of EADS' order backlog is an ongoing goal of Management. Only firm orders are included in calculating order backlog – for commercial aircraft, a firm order is defined as one for which EADS receives a non-refundable down payment on a definitive contract not containing a "walk-away" provision. Defence-related orders are included in the backlog upon signature of the related procurement contract. Commitments under "umbrella" or "framework" agreements by governmental customers are not included in backlog until they are officially notified to EADS.

For civil market contracts, amounts of order backlog reflected in the table below are derived from catalogue prices, escalated to the expected delivery date and, to the extent applicable, converted into Euro (at the corresponding hedge rate for the hedged portion of expected cash flows, and at the year-end spot rate for the non-hedged portion of expected cash flows). The amount of defence-related order backlog is equal to the contract values of the corresponding programs.

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Consolidated Backlog[1] for the Year Ended 31st December 2004, 2003 and 2002

	Year ended 31st December 2004 Amount in € bn	Percentage[5]	Year ended 31st December 2003 Amount in € bn	Percentage[5]	Year ended 31st December 2002 Amount in € bn	Percentage[5]
Airbus[2]	136.0	70	141.8	73	140.9	84
Military Transport Aircraft	19.9	10	20.0	11	0.6	0
Aeronautics[3]	10.2	5	9.8	5	10.1	6
Defence & Security Systems[3]	17.3	9	14.3	7	13.5	8
Space[4]	11.3	6	7.9	4	3.9	2
Total Divisional Backlog	194.7	100	193.8	100	169.1	100
Headquarters/Eliminations	(10.4)		(14.5)		(0.8)	
Total	**184.3**		**179.3**		**168.3**	

1 Without options.
2 Based on catalogue prices.
3 In 2003, the Military Aircraft business unit was transferred from the Aeronautics Division to the DS Division, with a corresponding impact on the backlog of each Division of €3.2 billion. 2002 figures have been restated to be comparable with 2003 and 2004.
4 Astrium consolidated at 100% since 2003; proportionally consolidated at 75% in 2002.
5 Before headquarters/eliminations.

The €5 billion increase in the 31st December 2004 order backlog reflects higher orders as compared to revenues accounted for in the same year, partially offset by the effect of the weaker dollar spot rate used for conversion of the non-hedged portion of the backlog.

The amount recorded under "headquarters/eliminations" in 2003 and 2004 primarily reflects the elimination of Airbus' work share in the A400M program. The Military Transport Aircraft ("**MTA**") Division's order backlog includes 100% of the value of the A400M order to reflect the Division's prime-contractor responsibility over the program. The double-counting (corresponding to the Airbus work share) is therefore eliminated in EADS' consolidated order backlog. In 2004, a change in the recording of Airbus work share was made to reflect the fact that the A400M engine order was recorded directly by the MTA Division, and not by Airbus. This led to a decrease in Airbus' work share on the A400M program, from approximately 69% in 2003 to approximately 49% in 2004. Consequently, the value of Airbus' order backlog (and the headquarters/eliminations line) was reduced by approximately €4.0 billion.

Airbus' net order intake was 366 aircraft in 2004 (€25.8 billion), including 10 new orders for the A380, bringing the total firm order backlog for the A380 to 139 aircraft. These increases were offset by net foreign currency adjustments to the backlog of approximately €7 billion, reflecting the year-end valuation of the non-hedged portion of Airbus' order backlog, and by the high delivery rate (320 deliveries in 2004). At the end of 2004, Airbus' order backlog included 1,500 aircraft (as compared to 1,454 aircraft at the end of 2003).

The Military Transport Aircraft Division's order intake of €1.2 billion, driven by the order of 5 MRTT from Australia, was offset in the MTA Division backlog by the A400M revenues ramp up in 2004.

Backlog at the Aeronautics Division was relatively unchanged, as order intake of €4.3 billion, including mostly Eurocopter net orders for 332 helicopters, was offset by 2004 revenues.

The DS Division's backlog increased from 2003, driven by high order-intake of €8.5 billion, well in excess of 2004 revenues. This was mainly a result of the order intake for Eurofighter Tranche 2, the Romania border surveillance system and the Acropol contract for secure communication.

The Space Division's order book continued to increase in 2004, mainly due to a high level of order intake (€5.7 billion), including orders for Ariane 5 launchers, ATV programme and M51 ballistic missile production.

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

The table below illustrates the proportion of commercial and defence backlog at the end of each of the past two years.

	Year ended 31st December 2004 Amount in € bn[2]	Percentage	Year ended 31st December 2003 Amount in € bn[2]	Percentage
Backlog:[1]				
Commercial Sector	135	73	133	74
Defence Sector	49	27	46	26
Total	**184**	**100**	**179**	**100**

1 Without options.
2 After headquarters/eliminations.

Reflecting the results of Management's efforts to increase revenues from the defence sector to approximately 30% of total revenues over the long term, order backlog in the defence sector continued to grow (€49 billion at year-end 2004), with new defence contracts representing an overall defence order intake of €11.4 billion. Partially offsetting the effect of these new orders were increased revenues in the defence sector (from €7.0 billion in 2003 to €7.7 billion in 2004) reflecting the ramp-up of several programs such as A400M, Paradigm and missiles, as well as NH90 and Tiger helicopters.

1.1.4.2 Use of EBIT*

EADS uses earnings before interest and taxes, pre-goodwill and exceptionals ("**EBIT***") as a key indicator of its economic performance. In line with IFRS 3, applied by EADS as from 1st January 2004, goodwill is no longer amortised, but is subject to regular impairment testing. In 2004, there was no goodwill impairment. The term "**exceptionals**" refers to items such as amortisation expenses of fair value adjustments relating to the EADS Merger, the Airbus Combination and the formation of MBDA, as well as any goodwill impairment charges thereon.

Set forth below is a table reconciling EADS' income from operating activities (as reflected in EADS' IFRS consolidated statement of income) with EADS' EBIT*.

in €m	Year ended 31st December 2004	Year ended 31st December 2003	Year ended 31st December 2002
Income from operating activities	2,143	561	160
Income from investments	84	186	87
Goodwill amortisation and impairment losses[1]	0	567	936
Exceptional depreciation (fixed assets)	212	214	227
Exceptional depreciation (inventories)	5	15	16
EBIT*	**2,444**	**1,543**	**1,426**

1 In accordance with IFRS 3, as from the beginning of 2004, EADS no longer amortizes goodwill on a regular basis.

1.1.4.3 EBIT* Performance by Division

Set forth below is a breakdown of EADS' consolidated EBIT* by division for the past three years. To facilitate comparison of 2004 and 2003 to 2002 performance in light of the transfer in 2003 of the Military Aircraft business unit from the Aeronautics Division to the DS Division, 2002 EBIT* figures for the two divisions have been restated accordingly, presenting EBIT* as if the transfer had occurred on 1st January 2002.

In €m	Year ended 31st December 2004	Year ended 31st December 2003	Year ended 31st December 2002
Airbus	1,922	1,353	1,361
Military Transport Aircraft	26	30	(80)
Aeronautics	206	217	180
Defence and Security Systems	228	171	122
Space[1]	10	(400)	(268)
Subtotal	2,392	1,371	1,315
HQ/Consolidation[2]	52	172	111
EADS	2,444	1,543	1,426

1 Astrium consolidated at 100% since 2003; proportionally consolidated at 75% in 2002.
2 HQ/Consolidation primarily includes results from headquarters, which mainly includes income from the investment in Dassault Aviation.

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

2004 compared to 2003. EADS' consolidated EBIT* increased to €2.4 billion for 2004 from €1.5 billion for 2003, primarily reflecting (i) the turnaround at the Space Division from negative €400 million in 2003 to positive €10 million in 2004 and (ii) stronger performance at Airbus resulting mainly from higher deliveries.

Airbus' EBIT* increased to €1.9 billion for 2004 from €1.4 billion for 2003, reflecting both an increase in number of aircraft delivered (320 in 2004, as compared to 302 in 2003) and a more favourable product mix. Also affecting EBIT* were the initial results of the "Route 06" cost savings programme implemented in 2002 (€50 million).

Airbus' EBIT* also included a €232 million positive accounting currency effect resulting from the difference between the historical exchange rates used to convert U.S. dollar-denominated customer advances received and the corresponding U.S. dollar-denominated costs for aircraft delivered in 2004. See "– 1.1.3 Critical Accounting Considerations, Policies and Estimates – Accounting for Foreign Currency Denominated Operations in the Financial Statements". This was partially offset by a negative €100 million impact of less favourable rates of micro hedges maturing in 2004 as compared to 2003.

The MTA Division's EBIT* decreased to €26 million for 2004 from €30 million for 2003, reflecting the effects of higher early retirement costs and commercial costs associated with the U.K. AirTanker programme.

EBIT* at the Aeronautics Division decreased to €206 million for 2004 from €217 million for 2003. The decrease reflects EBIT* degradation in the maintenance, repair and overhaul business, as well as the continuing downturn of the regional aircraft market. Partially offsetting these negative factors was an increase in Eurocopter's performance.

The DS Division's EBIT* was €228 million for 2004, as compared to €171 million for 2003. Excluding the effect of the release of a €106 million provision relating to a now-concluded litigation with Thales, the DS Division's EBIT* would have decreased, primarily as a result of ongoing restructuring costs (€88 million in 2004 as compared to €50 million in 2003).

The results of several years of intensive restructuring efforts were reflected in the Space Division's positive EBIT* of €10 million for 2004, a €410 million increase from 2003.

The decrease of EBIT* at Headquarters to €52 million for 2004, from €172 million for 2003, reflects the decrease in income from EADS' investment in Dassault Aviation, including a negative €(33) million catch-up of Dassault Aviation's 2003 IFRS results (as compared to a positive €77 million catch-up in 2003).

2003 compared to 2002. EADS' consolidated EBIT* increased to €1.5 billion for 2003 from €1.4 billion for 2002. The increase primarily reflects the ramp-up of defence programs at the DS Division and the Aeronautics Division and, to a lesser extent, at the MTA Division. Significant losses at the Space Division partially offset these increases.

Airbus' EBIT* remained relatively unchanged at €1.4 billion for 2003, reflecting the roughly equivalent number of deliveries (305 in 2003, of which 302 were recognized in revenues, as compared to 303 in 2002). The positive effects of improved margins resulting from a more favourable product mix mostly offset the negative impact of higher research and development costs for the A380 program. The EBIT* margin pre-research and development costs of 16.7% reflects the cost benefits of Airbus' built-in manufacturing flexibility. See "Part 2/1.1.2 Airbus – Production – Adaptability to Changes in Demand" for further discussion of built-in manufacturing flexibility.

Higher margins on military derivatives aircraft (e.g., the multi-role tanker program) and reduced research and development costs contributed to the MTA Division's 2003 EBIT* of €30 million. This result represents a €110 million improvement from the 2002 negative EBIT* of €80 million, which included the €54 million write-off of assets relating to the Do 728 programme.

The effect on cost structures resulting from restructuring measures at the DS Division, as well as increased deliveries of missiles and combat aircraft, led to a 40% increase of the Division's EBIT* from €122 million for 2002 to €171 million for 2003.

Strong results at Eurocopter, mostly relating to the ramp-up of the NH90 and Tiger programmes, led to a 2003 EBIT* at the Aeronautics Division of €217 million, a 21% increase over 2002 EBIT* of €180 million.

Headquarters also contributed €172 million to EADS' consolidated EBIT* for 2003, as compared to €111 million for 2002, resulting primarily from the €114 million increase in income from EADS' investment in Dassault Aviation. The increase includes a €77 million catch-up of prior-year income of Dassault Aviation, in accordance with IFRS. See "Notes to IFRS Consolidated Financial Statements – Note 13: Investments in Associates, Other Investments and Long-term Financial Assets".

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

These increases to EADS' consolidated 2003 EBIT* were partly offset by a €400 million negative EBIT* at the Space Division, resulting from (i) expenses and provisions of €288 million relating to the restructuring programs (as compared to €105 million in 2002), (ii) asset depreciation at Astrium of €25 million (as compared to €56 million in 2002) and (iii) further provisioning for programme cost overruns.

Hedging Impact on EBIT*. Nearly two-thirds of EADS' consolidated revenues in 2004 were received in currencies other than the Euro. Given the long-term nature of EADS' business cycles (evidenced by its multi-year backlog), the Company hedges its net foreign exchange exposure to mitigate the impact of exchange rate fluctuations on its EBIT*. See "– 1.1.8 Management of Market Risks – Exchange Rate Risk" and "1.4.1 Market Risks – Exposure to Foreign Currencies".

During 2004, micro hedges covering approximately U.S.$9.9 billion of EADS' U.S. dollar-denominated revenues matured. In 2004, the compounded conversion rate at which hedged U.S. dollar-denominated revenues were accounted for was €-U.S.$0.987, as compared to €-U.S.$0.971 in 2003. This difference resulted in a €160 million decrease in EBIT* from 2003 to 2004, of which approximately two-thirds was at Airbus.

The impact of the year-to-year change in average hedge rates for net foreign currency exposure from 2002 (€-U.S.$0.967) to 2003 (€-U.S.$0.969) had a non-material impact (negative €26 million) on EADS' consolidated EBIT* for 2003.

It is expected that the hedge book will increase in coming years in line with the forecasted growth in demand for aircraft and the corresponding impact on future deliveries combined with the active hedging policy of EADS. The conversion rates of the new hedges will reflect the state of the U.S. dollar versus the Euro at the time such hedges are entered into.

The tables below set forth the notional amount of foreign exchange hedges in place as of 31st December 2004, and the average U.S. dollar rates applicable to corresponding EBIT*.

(in U.S.$ bn)	2005	2006	2007	2008	2009	2010	2011	Total
Total Hedges (in U.S.$)	**10.9**	**8.7**	**7.2**	**6.7**	**5.0**	**1.3**	**0.4**	**40.2**
of which €-U.S.$	9.3	7.2	6.0	5.5	3.9	0.9	0.3	33.1
of which £-U.S.$	1.6	1.5	1.2	1.2	1.1	0.4	0.1	7.1
Forward Rates (in U.S.$)								
€-U.S.$	1.01	1.00	1.02	1.03	1.09	1.04	1.13	
£-U.S.$	1.50	1.51	1.49	1.52	1.59	1.61	1.60	

Restructuring. Since its formation in 2000, EADS has implemented, and continues to implement, a number of restructuring plans to further enhance its competitive position in the challenging markets in which it operates. Total restructuring charges of €129 million were recorded in the 2004 IFRS consolidated statement of income, decreasing from €362 million for 2003. For 2004, this included new provisions and current year charges primarily related to (i) the defence and communications business at the DS Division (€88 million); (ii) restructuring at Sogerma (€13 million); and (iii) the final tranche of an early retirement initiative at the MTA Division (€28 million).

The related, yet to be implemented, restructuring burden is accounted for at year-end both as a provision and as other liabilities.

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

1.1.5 EADS Results of Operations

The following table sets forth a summary of the IFRS consolidated statements of income of EADS for the years indicated.

IFRS consolidated statements of income for the year ended 31st December 2004, 2003 and 2002

in €m, except for EPS	Year ended 31st December 2004	Year ended 31st December 2003	Year ended 31st December 2002
Revenues	31,761	30,133	29,901
Cost of sales	(25,510)	(24,594)	(24,465)
Gross margin	**6,251**	**5,539**	**5,436**
Selling and administrative expenses	(2,119)	(2,162)	(2,251)
Research and development expenses	(2,126)	(2,189)	(2,096)
Other income	314	196	248
Other expense[1]	(177)	(256)	(241)
Goodwill amortisation & related impairment losses[1,2]	0	(567)	(936)
Income from operating activities	**2,143**	**561**	**160**
Income from investments	84	186	87
Interest income (expense)	(275)	(203)	(81)
Other financial result	(55)	148	21
Income taxes	(664)	(474)	(453)
Profit (loss) from ordinary activities	**1,233**	**218**	**(266)**
Minority interests	(203)	(66)	(33)
Net income (loss)	**1,030**	**152**	**(299)**
Earnings per share (basic) (in €)	**1.29**	**0.19**	**(0.37)**
Earnings per share (diluted) (in €)	**1.28**	**0.19**	**(0.37)**

1 For purposes of this discussion, the presentation of the summary consolidated statements of income differs from the actual IFRS consolidated statements of income, in which "goodwill amortisation & related impairment losses" is included within the line item "other expense".

2 In accordance with IFRS 3, as from the beginning of 2004, EADS no longer amortizes goodwill on a regular basis.

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Set out below are year-to-year comparisons of results of operations, based upon EADS' consolidated statements of income.

Consolidated Revenues

Consolidated revenues for 2004 reached €31.8 billion, as compared to €30.1 for 2003. Excluding the effects of currency fluctuations on the non-hedged portion of EADS' revenues, the increase would have been nearly 7%.

Revenues at all five Divisions increased as compared to 2003.

Set forth below is a breakdown of EADS' consolidated revenues by division for the past three years. To facilitate comparison of 2004 and 2003 to 2002 revenues in light of the transfer in 2003 of the Military Aircraft business unit from the Aeronautics Division to the DS Division, 2002 revenue figures for the two Divisions have been adjusted accordingly, presenting revenues as if the transfer had occurred on 1st January 2002.

in €m	Year ended 31st December 2004	Year ended 31st December 2003	Year ended 31st December 2002
Airbus	20,224	19,048	19,512
Military Transport Aircraft	1,304	934	524
Aeronautics	3,876	3,803	3,834
Defence and Security Systems	5,385	5,165	4,770
Space[1]	2,592	2,424	2,216
Subtotal	**33,381**	**31,374**	**30,856**
HQ/Consolidation[2]	(1,620)	(1,241)	(955)
EADS	31,761	30,133	29,901

1 Astrium consolidated at 100% since 2003; proportionally consolidated at 75% in 2002.
2 HQ/Consolidation includes, in particular, adjustments and eliminations for intercompany transactions.

Airbus

Set forth below is a breakdown of Airbus' deliveries by aircraft type for the past three years.

number of aircraft	Year ended 31st December 2004	Year ended 31st December 2003	Year ended 31st December 2002
Single Aisle	233	233	236
Widebody	12	8	9
Long-Range	75	64	58
of which "Stretched"	*23*	*23*	*8*
Total	**320**	**305**[1]	**303**

1 In 2003, revenues were recognized in the IFRS consolidated statement of income for only 302 of the 305 planes delivered.

2004 compared to 2003. Airbus' 2004 consolidated revenues increased by 6.2%, to €20.2 billion from €19 billion for 2003, reflecting primarily (i) the increase in aircraft deliveries recognized in revenues (320 in 2004 as compared to 302 in 2003), (ii) the positive impact of a more favourable mix of aircraft being delivered in 2004 as compared to 2003 and (iii) the revenues ramp up of the A400M program. As in 2003, most of the deliveries in 2004 were for single-aisle A319/A320/A321 aircraft. Airbus delivered the same amount of this type of aircraft in 2004 as in 2003 (233 aircraft). Deliveries of long-range aircraft increased from 64 in 2003 to 75 in 2004, including 23 of the higher-priced A340-500/600 "stretched" versions.

Offsetting these positive factors was an approximate €0.3 billion negative impact resulting from (i) the deterioration of the U.S. dollar exchange rates used to convert payments upon deliveries, not only for the portion which was not hedged by financial instruments (average spot rate of €-U.S.$1.24 in 2004 as compared to €-U.S.$1.13 in 2003), but also for the portion which was hedged (degradation of the hedge rate); partly offset by (ii) the favourable historical exchange rate applied to the portion of revenues representing customer advances received in prior periods. For a discussion of the impact of exchange rate variations on EADS' results of operations, see "– 1.1.3 Critical Accounting Considerations, Policies and Estimates – Accounting for Hedged Foreign Exchange Transactions in the Financial Statements", "– 1.1.3 Critical Accounting Considerations, Policies and Estimates – Accounting for Foreign Currency Denominated Operations in the Financial Statements", "– 1.1.8 Management of Market Risks – Exchange Rate Risk" and "1.4.1 Market Risks – Exposure to Foreign Currencies".

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

2003 compared to 2002. Airbus' 2003 consolidated revenues decreased by 2.4%, to €19 billion from €19.5 billion for 2002. This decrease primarily reflects the negative effect of the weakening U.S. dollar. The changing Euro-U.S. dollar exchange rate (average spot rate of €-U.S.$1.13 in 2003 compared to €-U.S.$ 0.95 in 2002) translated into a negative €1.5 billion impact on the non-hedged portion of Airbus' 2003 consolidated revenues.

Offsetting the negative impact of the weaker U.S. dollar was the positive impact of a more favourable mix of aircraft being delivered in 2003 as compared to 2002. As in 2002, most of the deliveries in 2003 were for single-aisle A319/A320/A321 aircraft. Airbus delivered 233 units of this type of aircraft in 2003, as compared with 236 in 2002. However, deliveries of long-range aircraft increased from 58 in 2002 to 64 in 2003, including 23 of the higher-priced A340-500/600 "stretched" versions (as compared to 8 A340 stretched versions delivered in 2002).

Military Transport Aircraft

Set forth below is a breakdown of the MTA Division's deliveries by aircraft type for the past three years.

number of aircraft	Year ended 31st December 2004	Year ended 31st December 2003	Year ended 31st December 2002
C-212	4	2	0
CN-235	4	7	8
C-295	6	5	2
Total	**14**	**14**	**10**

For 2004, consolidated revenues of the MTA Division increased by 40%, from €0.9 billion for 2003 to €1.3 billion for 2004. The increase reflects the Division's attainment of further development milestones for the A400M programme (€0.4 billion of incremental revenue).

For 2003, consolidated revenues of the MTA Division increased by 78%, from €0.5 billion for 2002 to €0.9 billion for 2003. The €0.4 billion increase in revenues relates primarily to the attainment of the first development milestones for the A400M program (€0.3 billion of incremental revenue) and growth in the mission aircraft business.

Aeronautics

Set forth below is a breakdown of the Aeronautics division's deliveries by product type for the past three years.

number of aircraft	Year ended 31st December 2004	Year ended 31st December 2003	Year ended 31st December 2002
Eurocopter	279	297	367
Light	*157*	*170*	*230*
Medium	*102*	*108*	*110*
Heavy	*18*	*19*	*27*
Tiger	*2*	*0*	*0*
ATR (new aircraft)	13[1]	9	19
EADS Socata	48	49	105

1 In 2004, revenues were recognized in the IFRS consolidated statement of income for only 9 of the 13 planes delivered.

For 2004, the Aeronautics Division generated consolidated revenues of €3.9 billion, relatively unchanged from €3.8 billion for 2003. Increased revenues generated by Eurocopter's customer support services and the achievement of percentage-of-completion milestones for the NH90 and Tiger helicopters offset the effect of fewer helicopter deliveries in 2004. Eurocopter's revenue increase was offset by lower revenues at ATR and a reduction in maintenance, repair and overhaul (MRO) orders at Sogerma.

For 2003, consolidated revenues of €3.8 billion at the Aeronautics Division remained unchanged from the Division's 2002 consolidated revenues. Increased revenues generated by Eurocopter's customer support services and the recording of technical milestones for the NH90 and Tiger helicopters offset the effect of fewer helicopter deliveries in 2003. Eurocopter's revenue increase was offset by the impact of lower deliveries at ATR and Socata.

Defence & Security Systems

Set forth below is a table showing the number of Eurofighter deliveries by EADS for the past three years.

number of aircraft	Year ended 31st December 2004	Year ended 31st December 2003	Year ended 31st December 2002[1]
Eurofighter	9	7	0

1 The first Eurofighter deliveries were scheduled for 2003.

For 2004, the DS Division generated consolidated revenues of €5.4 billion, as compared to €5.2 billion for 2003. The increase was primarily due to the continued ramp-up of the PAAMS/Aster, MICA export, and ASRAAM missile programs.

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

For 2003, the DS Division generated consolidated revenues of €5.2 billion, an increase of 8% over 2002 revenues of €4.8 billion. The increase was primarily due to the ramp-up of the MICA, ASRAAM and Storm Shadow missile programs and to the first deliveries of Eurofighters to Spain and Germany.

Space

Set forth below is a breakdown of the Space Division's deliveries of commercial telecommunications satellites and commercial launchers for the past three years.

	Year ended 31st December 2004	Year ended 31st December 2003	Year ended 31st December 2002
Commercial Telecommunications Satellites	3	1	2
Commercial Launchers	3	4	12

For 2004, the Space Division generated consolidated revenues of €2.6 billion, as compared to €2.4 billion for 2003. The increase resulted mainly from a ramp-up of Skynet 4 satellite program services and the achievement of additional milestones on the M51 ballistic missile program.

For 2003, the consolidation effect of the acquisition of the 25% of Astrium not previously owned by EADS translated into a 9% increase in consolidated revenues for the Space Division, from €2.2 billion for 2002 to €2.4 billion for 2003. Excluding the consolidation effect, the Division's revenues would have decreased to €2.0 billion for 2003, reflecting the termination of the Ariane 4 program and the continuing downturn in the commercial telecommunications satellite market.

Consolidated Cost of Sales

For 2004, consolidated cost of sales increased to €25.5 billion from €24.6 billion for 2003. Gross margin increased from 18.4% in 2003 to 19.7% in 2004, reflecting the effects of higher deliveries at Airbus and last year's major restructuring activities at the Space Division.

Consolidated cost of sales remained relatively unchanged at €24.6 billion for 2003, as compared to €24.5 billion for 2002. This primarily reflects the stable delivery levels at Airbus (302 in 2003 versus 303 in 2002). Cost of sales significantly increased at (i) the Space Division, reflecting the 100% consolidation of Astrium (€0.3 billion) and (ii) the DS Division, reflecting the ramp-up of Eurofighter and missile system production (€0.3 billion). These cost increases were offset by a €0.5 billion decrease in cost of sales at Airbus primarily due to the effects of the weaker U.S. dollar.

Consolidated Selling and Administrative Expenses

For 2004, consolidated selling and administrative expenses decreased slightly, from €2.2 billion for 2003 to €2.1 billion for 2004, reflecting the results of cost awareness programs at the business units and the ongoing effects from restructuring of EADS' general and administrative activities.

For 2003, consolidated selling and administrative expenses decreased slightly, from €2.3 billion for 2002 to €2.2 billion for 2003, reflecting the results of realised cost reductions at headquarters and other ongoing effects from restructuring of EADS' general and administrative activities.

Consolidated Research and Development Expenses

EADS' consolidated research and development expenses decreased by 3%, to €2.1 billion for 2004 from €2.2 billion for 2003. The application of IAS 38 at EADS in 2004 resulted in the capitalisation of €165 million of R&D, of which €152 million related to Airbus for the A380. See "– 1.1.3 Critical Accounting Considerations, Policies and Estimates – Research and Development Expenses" for an explanation of the impact of the accounting change related to the capitalization of certain development costs in accordance with IAS 38. The capitalisation of A380-related R&D is reflected in the decrease of A380-related R&D expense in the IFRS consolidated statement of income, from its peak of €1,082 million for 2003 to €983 million for 2004. On the whole, Airbus R&D expense recorded in the IFRS consolidated statement of income decreased by €85 million from 2003 levels. Other non-Airbus consolidated R&D expenses totalled €392 million – an increase of approximately €20 million from 2003 resulting mainly from the EADS research centre.

From 2001 through 2004, cumulative R&D expenses on the A380 program amounted to €3.3 billion. Following a review of the A380 program, Airbus estimated in December 2004 that the aggregate R&D expenses at completion might exceed the initial budget by approximately €1.5 billion. Taken alone, this cost overrun is not expected to materially change the breakeven point or expected internal rate of return of the A380 program. As a result of the expected cost overrun, the A380-related R&D expenses in the IFRS consolidated statement of income are not expected to decrease before 2006. Approximately €0.1 to €0.2 billion of annual R&D expenses is expected to be capitalised in accordance with IAS 38 over the next few years.

For 2003, EADS' consolidated research and development expenses increased by 4%, to €2.2 billion from €2.1 billion for 2002. This increase primarily relates to ongoing programs at Airbus (€1.8 billion for 2003). Expenses at Airbus relating to the A380 programme reached €1.1 billion for 2003, an increase of €0.3 billion from 2002 levels. Research and development expenses related to the final phases of the flight certification of the A340-500/600 programme, as well as further specific enhancements on existing programs, also contributed to the overall Airbus R&D expenses for the year. Other non-Airbus consolidated R&D expenses totalled €370 million – a reduction of approximately €40 million from 2002.

Consolidated Other Income and Other Expense

Consolidated other income and other expense represent gains and losses on disposals of investments in fixed assets, income from rental properties and certain provisions.

For 2004, the net of other income and other expense was positive €137 million as compared to negative €60 million for 2003. €106 million from the release of provisions in the DS Division relating to the Thales Euromissiles litigation were included in consolidated other income for 2004.

For 2003, the net of other income and other expense was negative €60 million as compared to positive €7 million for 2002. €63 million from the disposal of EADS' 50% share in Aircelle to Snecma were included in consolidated other income for 2002.

Consolidated Amortisation of Goodwill and Impairment Losses

As a result of EADS' early adoption of IFRS 3/IAS 36 revised ("Business Combinations"), goodwill is no longer amortized on a regular basis as from 1st January 2004, but subject to annual impairment testing. No impairment charges were recorded for 2004.

For 2003, the consolidated amortisation of goodwill decreased to €0.6 billion from €0.9 billion for 2002. The €0.3 billion decrease from 2002 reflects the impairments taken in 2002 for assets held within the Space Division (€350 million). No goodwill was impaired in 2003.

Consolidated Income (Loss) from Investments

Consolidated income (loss) from investments principally includes results from companies accounted for under the equity method and the results attributable to non-consolidated investments.

For 2004, EADS recorded €84 million in consolidated investment income as compared to €186 million for 2003. The €102 million decrease primarily reflects a €33 million negative catch-up in 2004 of 2003 income related to EADS' investment in Dassault Aviation, versus a positive €77 million catch-up in 2003 of 2002 income related to EADS' investment in Dassault Aviation in 2003. See "Notes to IFRS Consolidated Financial Statements – Note 9: Financial Result".

For 2003, EADS recorded €186 million in consolidated investment income as compared to €87 million for 2002. The €99 million increase is mainly due to a €77 million catch-up of prior year income related to EADS' investment in Dassault Aviation. In 2003, EADS restated Dassault Aviation's 2002 and 2003 IFRS actual financial performance – in previous periods, EADS had relied on estimated financial performance reported under French GAAP. Including the IFRS restatement, investment income for the 46% stake in Dassault Aviation amounted to €225 million as compared with €111 million for 2002. See "Part 2/1.1.7 Investment – Dassault Aviation". These increases were partially offset by depreciation of various non-consolidated investments.

Consolidated Interest Income (Expense)

Consolidated interest income (expense) reflects the net of interest income and expenses arising from financial assets or liabilities.

For 2004, EADS reported a consolidated net interest expense of €275 million, as compared to €203 million of consolidated net interest expense for 2003. In addition to higher interest charges for 2004 on European government refundable advances received, interest charges on financing for the Skynet5/ Paradigm programme in 2004 contributed to the increase in consolidated net interest expense. See "– 1.1.7 Liquidity and Capital Resources – Consolidated Financial Liabilities".

For 2003, EADS reported a consolidated net interest expense of €203 million, as compared to €81 million of consolidated net interest expense for 2002. This change is principally due to (i) higher interest charges for 2003 on European government refundable advances received and (ii) the increasing spread between interest received on positive balances invested in short-term liquid instruments and interest paid on longer-term debt. See "– 1.1.7 Liquidity and Capital Resources – Consolidated Financial Liabilities".

Consolidated Other Financial Result

For 2004, consolidated other financial result decreased to negative €55 million from positive €148 million for 2003. This change primarily results from (i) the lower effect in 2004 from valuation changes of U.S. dollar-denominated financial liabilities on the Euro- or British pound-denominated balance sheets of Group companies, which had generated positive other financial results in prior periods; (ii) a negative effect from the mark-to-market valuation of "**embedded derivatives**" and (iii) interest accrued on tax audit expenses in 2004. "Embedded derivatives" are currency hedges that, for accounting purposes, are deemed to be embedded in U.S. dollar-denominated purchase orders of equipment, where

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

the U.S. dollar is not conclusively the currency in which the price of the related equipment is routinely denominated in international commerce.

For 2003, consolidated other financial result increased to €148 million from €21 million for 2002. This change primarily results from a positive mark-to-market valuation of embedded derivatives.

In 2001, postponed deliveries of commercial aircraft related to the events of 11th September 2001 resulted in a mismatch between hedged positions and expected cash flows. A roll-over plan was carried out in 2002 and 2003 to rephase the maturities of the affected hedges with new delivery dates. The roll-over plan was completed as of 31st December 2003. Had this roll-over plan not been implemented, the affected hedges would have been deemed cancelled for accounting purposes. As the affected hedges had a negative mark-to-market value at the end of 2001, cancellation would have had a negative impact on consolidated other financial result. See "– 1.1.3 Critical Accounting Considerations, Policies and Estimates – Accounting for Hedged Foreign Exchange Transactions in the Financial Statements".

Consolidated Income Taxes

The effective tax rate was 35% in 2004. See "Notes to IFRS Consolidated Financial Statements – Note 10: Income Taxes".

Consolidated Minority Interest

For 2004, consolidated minority interest was negative €203 million, as compared to negative €66 million for 2003, reflecting primarily the interests of BAE SYSTEMS (€184 million) and Finmeccanica (€21 million) in the results of Airbus and MBDA, respectively.

For 2003, consolidated minority interest was negative €66 million, as compared to positive €33 million for 2002, reflecting primarily the interests of BAE SYSTEMS and Finmeccanica in the results of Airbus and MBDA, respectively.

Consolidated Net Income

As a result of the factors discussed above, EADS recorded consolidated net income of €1,030 million for 2004 as compared to consolidated net income of €152 million for 2003 and a consolidated net loss of €299 million for 2002.

The 2004 consolidated net income reflects the effects of EADS' early adoption of IFRS 3 and revised IAS 36. The table below sets forth 2003 and 2002 net income, restated as if IFRS 3 and revised IAS 36 had been applied for those periods.

In €m	Year ended 31st December 2004	Year ended 31st December 2003	Year ended 31st December 2002
Reported Consolidated Net Income (Loss)	1,030	152	(299)
Amortisation of Goodwill[1]	–	567	586
Minority Portion of Goodwill Amortisation	–	(75)	(75)
Restated Consolidated Net Income	1,030	644	212

1 Regular amortisation charge, excluding goodwill impairment charges already included in the Reported Consolidated Net Income/(Loss).

Earnings per Share (EPS)

Basic earnings per share increased by €1.10 per share, from €0.19 per share in 2003 to €1.29 per share in 2004. The number of outstanding shares at the end of 31st December 2004 was 799,550,294. The denominator used to calculate EPS was 801,035,035 shares, reflecting the average number of shares outstanding during the year. In 2002, EADS reported basic earnings per shares of €(0.37). See "Notes to IFRS Consolidated Financial Statements – Note 18: Shareholders' Equity" and "Note 31: Earnings per Share".

As EPS for 2004 reflects the impact of the adoption of IFRS 3 and revised IAS 36, it is not directly comparable with EPS for 2003. Had IFRS 3 and IAS 36 revised been applied for 2002 and 2003, EPS would have been as follows:

In €m	Year ended 31st December 2004	Year ended 31st December 2003	Year ended 31st December 2002
Restated Net Income (in €m)	1,030	644	212
Average Number of Shares (in millions)	801.035	800.957	804.117
Restated Basic EPS (in €)	1.29	0.80	0.26

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

1.1.6 Statement of Changes in Consolidated Shareholders' Equity

The following table sets forth a summary of the consolidated statement of changes in shareholders' equity for the period 1st January 2004 through 31st December 2004.

in €m	
Balance at 31st December 2003	**16,149**
Equity increase through ESOP/SOP	43
Net income	1,030
Cash distribution to shareholders	(320)
Purchase of treasury shares	(81)
Accumulated other comprehensive income	152
thereof currency translation adjustments	(359)
Balance at 31st December 2004	**16,973**

The increase in consolidated shareholders' equity in 2004 primarily reflects the year's higher net results and the effects of changes in accumulated other comprehensive income ("**AOCI**"), partly offset by the cash distribution to shareholders. Set out below is a discussion of AOCI and its impact on consolidated shareholders' equity. For a discussion of the other line items impacting consolidated shareholders' equity, see "Notes to IFRS Consolidated Financial Statements – Note 18: Shareholders' Equity".

In 2004, AOCI increased by €152 million. Changes in AOCI were due to (i) the €0.5 billion positive variation (after accounting for deferred taxes and minority interest) of the year-end mark-to-market valuation of that portion of EADS' hedge portfolio qualifying for hedge accounting under IAS 39, offset by (ii) the negative currency translation adjustment variation of €(0.4) billion generated mainly by the accounting impact of the merger of Airbus GIE into Airbus SAS.

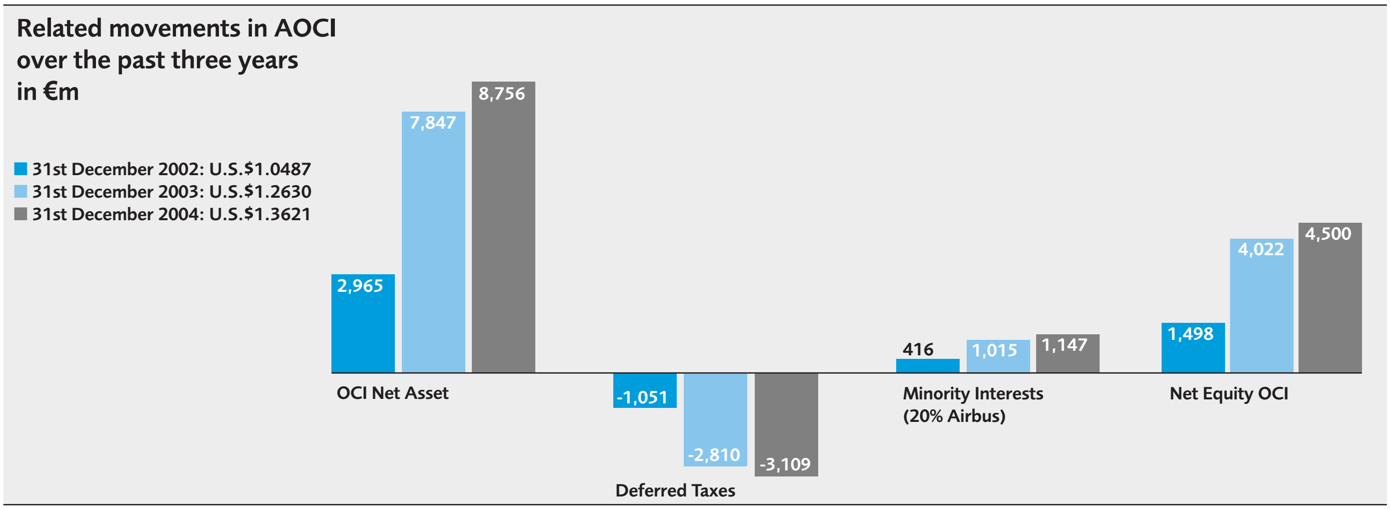
IAS 39 Related Impact on AOCI

At 31st December 2004, the notional amount of the outstanding portfolio of hedges qualifying for IAS 39 hedge accounting treatment ("**micro hedges**") amounted to approximately U.S.$40 billion hedged against the Euro and the Pound Sterling. The year-end mark-to-market valuation of EADS' portfolio of micro hedges resulted in a positive valuation change of €0.9 billion from 31st December 2003, based on a closing rate of €-U.S.$1.36.

Positive pre-tax mark-to-market values of micro hedges are included in other assets, while negative pre-tax mark-to-market values of micro hedges are included in provisions for financial instruments. Year-to-year changes in the mark-to-market value of micro hedges are recognised as adjustments to AOCI. These adjustments to AOCI are net of corresponding changes to (i) deferred tax assets (for micro hedges with negative mark-to-market valuations) and deferred tax liabilities (for micro hedges with positive mark-to-market valuations) and (ii) minority interests (where the hedge contract is held by an entity that is not wholly owned by EADS, e.g. Airbus).

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Set out below is a graphic presentation of micro hedge related movements in AOCI over the past three years (in €m).



As a result of the positive change in the fair market valuation of the micro hedge portfolio in 2004, AOCI-related other assets increased to €8.8 billion for 2004 from €7.8 billion for 2003. The corresponding €0.3 billion tax effect increased the AOCI-related deferred tax liability to €3.1 billion at 31st December 2004.

A €0.1 billion adjustment to minority interest was recorded to reflect mainly BAE SYSTEMS' 20% share of the positive after-tax mark-to-market valuation change in the Airbus hedge portfolio. As a result of this adjustment, AOCI-related minority interest was €1.1 billion at 31st December 2004, as compared to €1.0 billion at 31st December 2003.

Currency Translation Adjustment Impact on AOCI

The negative €359 million currency translation adjustment (CTA) related impact on AOCI primarily relates to the consequences of the merger of Airbus GIE (a U.S. dollar-denominated entity) into Airbus SAS (a Euro-denominated entity). Before the merger, Airbus GIE operations were recorded at the current exchange rate of the period except for those hedged with financial instruments. As from 1st January 2004, former Airbus GIE operations are recorded on the basis of historical exchange rates. As a result, no additional CTA is generated by former Airbus GIE operations. The portion of outstanding CTA as at 31st December 2003, booked in respect of non-monetary balance sheet items relating to transactions realised as from 1st January 2004 (i.e., mainly aircraft deliveries), is gradually released to the consolidated statement of income, in line with such deliveries.

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

1.1.7 Liquidity and Capital Resources

The Group's policy is to maintain sufficient cash and cash equivalents at all times to meet its present and future cash requirements. This policy objective is met through:

– implementation of measures designed to generate cash;

– developing and maintaining access to the capital markets; and

– containment of exposure to customer financing.

EADS benefits from a strong cash position, with €9.2 billion of consolidated gross cash (including available-for-sale securities of €0.5 billion) at 31st December 2004. This cash position is further supported by a €2.0 billion syndicated back-up facility. In 2004, the European Investment Bank granted EADS a long-term loan of $ 0.3 billion to fund a shareholder loan granted to Airbus. In addition, EADS' share of the financing for the ramp-up of the Paradigm program amounted to €0.3 billion. Overall, financial liabilities (short and long-term) amounted to €5.1 billion at 31st December 2004.

EADS calculates its consolidated net cash position as the difference between (i) cash, cash equivalents and securities and (ii) financial liabilities (as recorded in the consolidated balance sheet). The net cash position at 31st December 2004 was €4.1 billion. The factors affecting EADS' cash position, and consequently its liquidity risk, are discussed below.

1.1.7.1 Cash Flow

EADS generally finances its manufacturing activities and product development programs, and in particular the development of new commercial aircraft, through a combination of flows generated by operating activities, customers' advance payments, risk-sharing partnerships with sub-contractors and European government refundable advances. In addition, EADS' military activities benefit from government-financed research and development contracts. If necessary, EADS may raise funds in the capital markets.

The following table sets forth the variation of EADS' consolidated net cash position over the periods indicated.

in €m	Year ended 31st December 2004	Year ended 31st December 2003
Consolidated net cash position at 1st January	**3,105**	**2,370**
Gross cash flows from operations[1]	2,858	2,690
Changes in other operating assets and liabilities	2,155	2,019
thereof change in European refundable advances	2	716
Cash used for investing activities	(3,399)	(3,659)
thereof industrial capital expenditures	(3,017)	(2,672)
thereof customer financing	(188)	(1,093)
thereof others	(194)	106
Free Cash Flows[2]	**1,614**	**1,050**
thereof Free Cash Flows before customer financing	1,802	2,143
Treasury share buy-back	(81)	(31)
Cash distribution to shareholders	(320)	(240)
Repayment/dividend to minorities	(64)	(38)
Capital increase	43	21
Other changes in financial position	(239)	(27)
thereof financial liabilities non-recourse to EADS	(369)	0
Consolidated net cash position at 31st December	**4,058**	**3,105**

1 Represents cash flow from operations, excluding variations in working capital.
2 Does not reflect (i) investments in, or disposals of, available-for-sale securities (disposal of €10 million for 2004; disposal of €336 million for 2003), which are classified as cash and not as investments solely for the purposes of this net cash presentation; (ii) changes in cash from change in consolidation (€9 million for 2004; €(152) million for 2003); or (iii) increase in customer financing when it is non-recourse to EADS (€(369) million for 2004; €0 million for 2003).

The consolidated net cash position at 31st December 2004 was €4,058 billion, a 31% increase from 31st December 2003. The increase reflects (i) improved profit on a higher number of deliveries at Airbus, (ii) an optimisation of working capital through the receipt of pre-delivery payments in line with growth in the order book, (iii) the effects of an ongoing Company-wide focus on cash management and (iv) the stabilisation of customer financing. These positive factors were partly offset by (i) on-going capital expenditures at Airbus (particularly in relation to the A380) and the Space Division, and (ii) the higher cash distribution to shareholders in 2004.

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Gross Cash Flows from Operations

Gross cash flows from operations increased by €168 million to €2.9 billion for 2004, primarily as a result of the higher earnings (restated for 2003 from goodwill depreciation) generated during the year (an increase over 2003 of €523 million, before minority interests), partly offset by cash disbursements related to restructuring activities at the Space Division (€(150) million).

In 2003, the maturing of remaining "old" macro hedges, which had been reclassified as micro hedges in January 2001, had a negative effect of €0.2 billion on gross cash flows from operations. As of 31st December 2003, no further material impacts on gross cash flow resulting from such hedges are expected. See "– 1.1.3 Critical Accounting Considerations, Policies and Estimates – Accounting for Hedged Foreign Exchange Transactions in the Financial Statements".

Changes in Other Operating Assets and Liabilities (Working Capital)

Working capital is comprised of trade receivables, net inventory (gross inventory offset by a portion of customer advances), other assets and prepaid expenses netted against trade liabilities, other liabilities and deferred income.

Changes in working capital resulted in a positive impact on the net cash position for 2004 (€2.2 billion) and 2003 (€2.0 billion). The main net contributors to the positive working capital variation were (i) further inflow of overall pre-delivery payments from customers (approximately €1.7 billion in 2004, as compared to €1.3 billion in 2003); (ii) the change in gross inventory (approximately €0.4 billion in 2004 and €(0.6) billion in 2003), primarily reflecting the decrease of finished goods in 2004; (iii) "others" contributing €0.1 billion in 2004 and €0.6 billion in 2003 (including an exceptional increase in tax liabilities); and (iv) the change in European government refundable advances (€0.0 billion in 2004 and €0.7 billion in 2003).

European Government Refundable Advances. As of 31st December 2004, total European government refundable advances received, recorded on the balance sheet in the line item "other liabilities", amounted to €5.1 billion, including accrued interest.

For 2004, new receipts of European government refundable advances totalled €0.3 billion and reimbursements totalled €0.3 billion. Related accrued interest for 2004 of €0.25 billion was recorded on the balance sheet in the line item "other liabilities".

Set out below is a breakdown of total amounts of European government refundable advances, by product/project.

in € bn	2004
Long Range & Wide Body	2.0
A380	2.5
Eurocopter	0.2
Others	0.4
EADS	**5.1**

Cash Used for Investing Activities

Management categorises cash used for investing activities into three components: (i) industrial capital expenditures, (ii) customer financing and (iii) net investments in subsidiaries.

Industrial Capital Expenditures. Industrial capital expenditures (investments in property, plant and equipment and intangible assets) amounted to €3.0 billion for 2004 as compared to €2.7 billion for 2003. A380-related capital expenditure totalled €1.3 billion for 2004, as compared to €1.2 billion for 2003 (including capitalized research and development costs). See "Part 2/1.1.2 Airbus – Products and Services". To date, total A380-related capital expenditures is €3.7 billion, including the capitalisation of certain prototypes for approximately €0.4 billion.

The remaining portion of capital expenditures related to other programmes at Airbus of €0.8 billion (manufacturing facilities and common information technologies systems) and additional programmes in the other divisions of €0.9 billion, including investments in fixed assets at Paradigm Secure Communication Ltd. Excluding Airbus and Paradigm-related expenditures, EADS' other divisions incur approximately €0.5 billion annually in capital expenditures related to ongoing businesses. Investments in aircraft leases are included in customer financing, and not in industrial capital expenditures, even though the underlying assets are eventually recorded in property, plant and equipment.

For the period 2005 to 2006, it is estimated that most of EADS' capital expenditures will occur in connection with Airbus activities – in particular, for the development of the A380, the A350 and the A400M programmes. The A380 will continue to require substantial capital expenditures, although at a lesser rate than in 2004. See "Part 2/1.1.2 Airbus – Products and Services".

Customer Financing. Consolidated cash flows relating to customer financing amounted to negative €188 million for 2004. EADS aims to structure financing so as to facilitate the future sell-down or reduction of its exposure. During 2004, additions and sell-downs to EADS customer financing gross exposure offset one another. The cash outflow of €188 million primarily results from the payments received on outstanding financial leases over the course of the year being more than offset by the utilisation of certain provisions and the repayment of non-recourse debt. See "– Sales Financing".

Others. For 2004, the negative €0.2 billion figure primarily reflects net investments in subsidiaries, including the acquisition of Racal Instruments.

Free Cash Flows

As a result of the factors discussed above, positive free cash flows amounted to €1.6 billion for 2004, as compared to €1.0 billion for 2003. Positive free cash flows before customer financing were €1.8 billion for 2004 as compared to €2.1 billion for 2003.

Other Changes in Financial Position

In 2003, other changes in financial position represent mainly foreign exchange rate valuation changes on cash and debt instruments. In 2004, the cash outflow of €(239) million primarily reflects the impact of non-recourse customer financing.

1.1.7.2 Consolidated Cash and Cash Equivalents

The cash and cash equivalents and securities portfolio of the Group is invested mainly in non-speculative financial instruments, mostly highly liquid, such as certificates of deposits, overnight deposits, commercial paper and other money market instruments which, for cash and cash equivalents, generally have a maturity of less than one year. Therefore, EADS assesses its exposure towards price risk due to changes in interest rates and spreads as minimal. See "– 1.1.8 Management of Market Risks – Interest Rate Risk".

In 2003, the fully automated cross-border cash pooling system (covering France, Germany, Spain, the Netherlands and the U.K.) became operational. A Group-wide implementation of this system to cover entities located in other countries is ongoing. The cash pooling system enhances Management's ability to assess reliably and instantaneously the cash position of each subsidiary within the Group and enables Management to allocate cash optimally within the Group depending upon shifting short-term needs.

At 31st December 2004, the outstanding balance of cash and cash equivalents was €9.2 billion (including €0.5 billion in available-for-sale securities), as compared to €7.8 billion (including €0.5 billion in available-for-sale securities) at 31st December 2003. To conform with the consolidated cash-flow statement, as of 31st December 2003 and in line with IAS 7 ("Cash Flow Statements"), EADS changed its presentation regarding cash and cash equivalents in the consolidated balance sheet. Short-term securities that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, which had previously been included in the line item "securities" in the consolidated balance sheet, have been reclassified to the line item "cash and cash equivalents".

Total cash and cash equivalents (including available-for-sale securities) includes the full consolidation of cash at Airbus in an amount of €2.5 billion. However, EADS' stake therein is only 80%. Similarly, total cash and cash equivalents includes €0.6 billion from the 50% consolidation of MBDA. However, EADS' stake in MBDA is only 37.5%, representing 75% of the consolidated amount.

1.1.7.3 Consolidated Financial Liabilities

The following table sets forth the composition of EADS' consolidated financial liabilities, including both short-and long-term debt, as of 31st December 2004:

in €m	31st December 2004 Not Exceeding 1 year	Over 1 year up to 5 years	More Than 5 years	Total
Finance Leases[1]	52	172	46	270
Bonds	23	137	1,511	1,671
Liabilities to financial institutions[2]	145	260	1,369	1,774
Liabilities to affiliated companies	110	–	–	110
Loans	45	239	672	956
Other	345	–	–	345
Total	**720**	**808**	**3,598**	**5,126**[2]

1 This figure reflects the €1,089 million effect of the netting of defeased bank deposits against sales financing liabilities.
2 Financial liabilities include non-recourse debt for €988 million.

The outstanding balance of financial liabilities was €5.1 billion at 31st December 2004, compared to €4.8 billion at 31st December 2003. Prior to 2003, the amounts of the defeased bank deposits were recorded in the line item "financial assets" on the consolidated balance sheet.

The net increase of consolidated financial liabilities of €0.4 billion from 2003 resulted mainly from the €0.3 billion EIB loan and additional €0.3 billion financing relating to the Paradigm programme.

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Total financial liabilities include the full consolidation of Airbus financial debt for an amount of €2.3 billion. However, EADS is liable for only 80% of such financial debt incurred after 1st January 2001, in line with its stake in Airbus. See "– Sales Financing".

Overall, Management believes that the maturity profile of the consolidated financial liabilities is prudent and consistent with the structure of EADS' consolidated assets and expected cash flows.

EMTN Programme. In February 2003, EADS launched a €3 billion Euro Medium Term Note ("**EMTN**") Programme, with a subsequent initial €1.0 billion issue of a seven year 4.625%, later swapped into a variable rate of three-month LIBOR plus 1.02%, capped at 4%. In September 2003, EADS issued an additional €0.5 billion of fifteen year 5.5% fixed rate notes under the EMTN program. The objectives of the two issuances under the EMTN program are to refinance existing debt and to lengthen the maturity profile of the Company's debt. Management believes that the establishment of such financing schemes will enhance its overall presence and standing in the capital markets and increase its flexibility in responding to fluctuating funding requirements.

EADS has a strict policy in place with respect to contractual provisions relating to accelerated repayment of financial debt. It systematically rejects acceleration clauses which are based on a credit rating downgrade or on any non-material measurable event not under the control of EADS.

1.1.7.4 Sales Financing

EADS favours cash sales, and encourages independent financing by customers, in order to avoid retaining credit or asset risk in relation to delivered products.

However, in order to support product sales, primarily at Airbus and ATR, EADS may agree to participate in the financing of customers, on a case-by-case basis, directly or through guarantees provided to third parties. Dedicated and experienced teams at headquarters and at Airbus and ATR, respectively structure such financing transactions and closely monitor total EADS finance and asset value exposure and its evolution in terms of quality, volume and cash requirements intensity. EADS aims to structure all financing it provides to customers in line with market-standard contractual terms so as to facilitate any subsequent sale or reduction of such exposure.

In determining the amount and terms of a financing transaction, Airbus and ATR take into account the airline's credit rating as well as risk factors specific to the intended operating environment of the aircraft and its expected future value. Market yields and current banking practices also serve to benchmark the financing terms offered to customers.

More than 36% of the €5.1 billion of total consolidated financial liabilities as at 31st December 2004, are derived from the funding of EADS' sales financing assets, which are of a long-term nature and have predictable payment schedules. The decrease from 41% of total financial liabilities in 2003 reflects primarily the increase in overall financial liabilities resulting from the €0.3 billion EIB loan and an additional €0.3 billion financing for the Paradigm program. See "– Consolidated Financial Liabilities". The following table presents a breakdown of consolidated financial liabilities related to sales financing:

in €m	Principal Amount Outstanding 2004	Principal Amount Outstanding 2003
Finance Leases[1]	270	351
Liabilities to financial institutions	844	757
Loans	780	866
Total Sales Financing Liabilities[1]	1,894	1,974

1 These figures reflect the effect (€1,089 million in 2004; €1,131 million in 2003) of the netting of defeased bank deposits against sales financing liabilities.

The amounts of total sales financing liabilities at 31st December 2004 and 2003 reflect the offsetting of sales financing liabilities by €1.1 billion (for 2004) and €1.1 billion (for 2003) of defeased bank deposits securing such liabilities. Of the remaining €1.9 billion total sales financing liabilities at 31st December 2004, €1.0 billion is in the form of limited recourse debt, where EADS' repayment obligations are limited to its receipts from transaction counterparties. A significant portion of financial assets representing non-cancellable customer commitments have terms closely matching those of the related financial liabilities. See "Notes to IFRS Consolidated Financial Statements – Note 20: Financial Liabilities". See also "– 1.1.3 Critical Accounting Considerations, Policies and Estimates – Accounting for Sales Financing Transactions in the Financial Statements".

Sales financing transactions are generally collateralised by the underlying aircraft. Additionally, Airbus and ATR benefit from protective covenants and from security packages tailored according to the perceived risk and the legal environment of each transaction.

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

1.1.8 Management of Market Risks

1.1.8.1 Sales Financing Risk

EADS classifies the risks arising from its sales financing activities into two categories: (i) Financing Exposure, where the customer's credit – its ability to perform its obligations under a financing agreement – constitutes the risk; and (ii) Asset Value Exposure, where the risk relates to decreases in the future value of the financed aircraft. See also "1.4.1 Market Risks – Exposure to Sales Financing Risk".

Customer Financing Exposure. Certain EADS and BAE SYSTEMS group companies retain joint and several liability for sales financing exposure incurred by Airbus prior to the formation of Airbus S.A.S. EADS' exposure to liabilities incurred by Airbus following 1st January 2001, is limited by its status as a shareholder in Airbus S.A.S., of which it owns 80% of the shares. EADS proportionally consolidates only 50% of ATR and shares the risk with its partner, Alenia.

Airbus Customer Financing Exposure as of 31st December 2004 is spread over approximately 219 aircraft, operated at any time by approximately 39 airlines; the breakdown by aircraft type is balanced between A300/310, A320 family and A330/340. In addition, other aircraft related assets, such as spare parts, may also serve as collateral security. 57% of Airbus Financing Gross Exposure is distributed over five airlines in four countries, not taking backstop commitments into account.

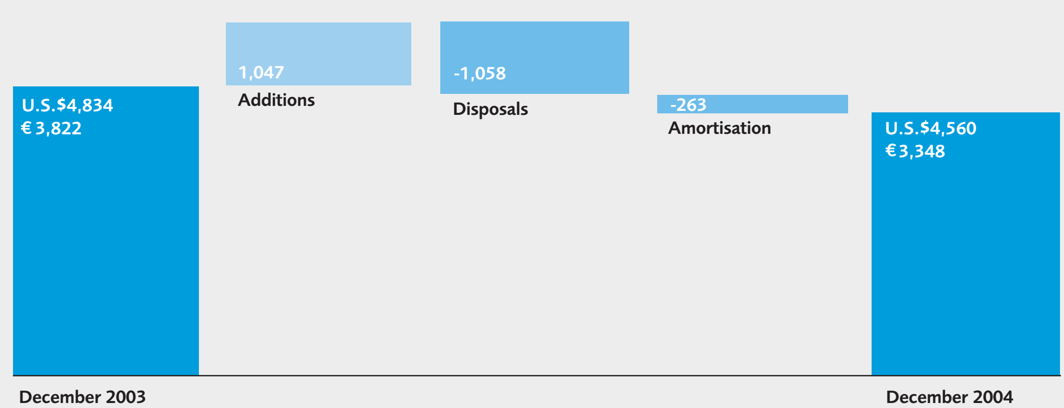
ATR Customer Financing Gross Exposure as of 31st December 2004 is distributed over 208 aircraft.

Gross Customer Financing Exposure: Customer Financing Gross Exposure is computed as the sum of (i) the net book value of aircraft under operating leases; (ii) the outstanding principal amount of finance leases or loans; and (iii) the net present value of the maximum commitment amounts under financial guarantees.

Gross Financing Exposure from operating leases, financial leases and loans differs from the value of related assets on EADS' balance sheet and related off-balance sheet contingent commitments for the following reasons: (i) assets are recorded in compliance with IFRS, but may relate to transactions where there is limited recourse to Airbus or ATR; (ii) the value of the assets is impaired or depreciated on the consolidated balance sheet; (iii) off-balance sheet gross exposure is calculated as the net present value of future payments, whereas the Financial Statements present the total future payments in nominal terms; and (iv) exposure related to AVGs recorded as operating leases in the Financial Statements is categorised under Asset Value Exposure, not Financing Exposure.

Airbus has reduced Gross Financing Exposure by 25% from its 1998 peak of U.S.$6 billion, to U.S.$4.6 billion (€3.3 billion) as of 31st December 2004, while the Airbus fleet in operation has increased from 1,838 aircraft to 3,598 over the same period. Management believes the current level of Gross Financing Exposure enhances Airbus' ability to assist its customers in the context of a tight aircraft financing market. The chart below illustrates the evolution of Airbus' Gross Financing Exposure during 2004 (in millions).

Evolution of Airbus' Gross Financing Exposure during 2004



1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

ATR 100% has reduced gross exposure by approximately 50% from a peak of U.S.$1.8 billion in 1997 to U.S.$0.5 billion (€0.3 billion) as of 31st December 2004, despite a challenging market for turboprop aircraft.

In response to the continued demand by its customers for financing, EADS expects to undertake additional outlays in connection with customer financing of commercial aircraft, mostly through finance leases and loans. Nevertheless, it intends to keep the amount as low as possible, and expects the net increase of sales financing gross exposure to be very low in 2005.

Net Exposure. Net exposure is the difference between gross exposure and the estimated value of the collateral security. Collateral value is assessed using a dynamic model based on the net present value of expected future rentals from the aircraft in the leasing market and potential cost of default. This valuation model yields results that are typically lower than residual value estimates by independent sources in order to allow for what Management believes is its conservative assessment of market conditions, as well as for repossession and transformation costs. See "– 1.1.3 Critical Accounting Considerations, Policies and Estimates – Accounting for Sales Financing Transactions in the Financial Statements".

The table below shows the transition from gross to net financing exposure (which does not include AVGs) as at 31st December 2004 and 2003. It includes 100% of Airbus' customer financing exposure and 50% of ATR's exposure, reflecting EADS' stake in ATR.

in € million	Note*	Airbus 100% 12/31/2004	Airbus 100% 12/31/2003	ATR 50% 12/31/2004	ATR 50% 12/31/2003	TOTAL EADS 12/31/2004	TOTAL EADS 12/31/2003
Operating Lease	12	1,835	1,638	146	218	1,981	1,856
Finance leases and loans	13	2,044	2,098	22	25	2,066	2,123
Others			104	119	34	119	138
On Balance sheet customer financing		3,879	3,840	287	277	4,166	4,117
Off Balance sheet customer financing	25	732	1,113	46	126	778	1,239
Non-recourse transactions on balance sheet		(1,135)	(742)			(1,135)	(742)
Off balance sheet adjustments		(128)	(389)			(128)	(389)
Gross customer financing exposure	25	**3,348**	**3,822**	**333**	**403**	**3,681**	**4,225**
Collateral Values	25	(1,916)	(2,229)	(300)	(365)	(2,216)	(2,594)
Net exposure		**1,432**	**1,593**	**33**	**38**	**1,465**	**1,631**
Impairment and provisions							
On Operating Lease	12	(532)	(590)			(532)	(590)
On Finance Lease & loans	13	(466)	(431)			(466)	(431)
On Inventories	14	(1)	(27)			(1)	(27)
On On balance sheet customer financing	19			(33)	(38)	(33)	(38)
On Off balance sheet committments	19	(433)	(545)			(433)	(545)
Asset impairments and Provisions		**(1,432)**	**(1,593)**	**(33)**	**(38)**	**(1,465)**	**(1,631)**
Residual exposure		–	–	–	–	–	–

* The indicated numbers refer to the number of the Notes to IFRS Consolidated Financial Statements.

The gross value of consolidated operating leases shown in the table above (€1,981 million in 2004 and €1,856 million in 2003) is accounted for in "Property, Plant and Equipment" at net book value of operating leases before impairment. Corresponding asset impairments (€532 million in 2004 and €590 million in 2003) are charged against this net book value. See "Notes to the IFRS Consolidated Financial Statement – Note 12: Property, plant and equipment" and "Note 25: Commitments and contingencies".

Also shown in the table above is the gross value for consolidated finance leases and loans (€2,066 million in 2004 and €2,123 million in 2003). Consolidated finance leases (€1,120 million in 2004 and €1,047 in 2003) are accounted for as long-term financial assets, recorded at their net book value before impairment. Loans (€946 million in 2004 and €1,078 million in 2003) are also accounted for as long-term financial assets, recorded at their outstanding gross amount. Corresponding overall asset impairment (€466 million in 2004 and €431 million in 2003) is charged against the net book value. See " Notes to the IFRS Consolidated Financial Statement – Note 13: Investments in associates, other investments and long-term financial assets".

Off-balance sheet customer financing exposure at Airbus and 50% ATR was €778 million in 2004 and €1,239 million in 2003. These amounts reflect the total nominal value of future payments under lease in/lease out structures. The year-to-year decrease mostly reflects the impact of the weakening U.S. dollar on the Euro amount of such payments. The corresponding net present value of future payments (discounted and net of mitigating factors) is included in total Gross Financing Exposure for an amount of €650 million in 2004 and €850 million in 2003. A provision of €433 million exists in EADS' balance sheet as of 31st December 2004 to cover the full amount of the corresponding net exposure. See "Notes to the IFRS Consolidated Financial Statements – Note 25: Commitments and contingencies".

Asset Value Exposure. A significant portion of EADS' asset value exposure arises from outstanding AVGs, primarily at Airbus. Management considers the financial risks associated with such guarantees to be manageable. Three factors contribute to this assessment: (i) the guarantee only covers a tranche of the estimated future value of the aircraft, and its level is considered prudent in comparison to the estimated future value of each aircraft; (ii) the AVG-related exposure is diversified over a large number of aircraft and customers; and (iii) the exercise periods of outstanding AVGs are distributed through 2018, resulting in low levels of exposure maturing in any year. Because exercise dates for AVGs are on average in the 10th year following aircraft delivery, AVGs issued in 2005 will generally not be exercisable prior to 2015, and, therefore, an increase in near-term exposure is not expected.

Gross Exposure. Gross Asset Value Exposure is defined as the sum of the maximum guaranteed tranche amounts (as opposed to the sum of the maximum guaranteed asset value amounts) under outstanding AVGs. At 31st December 2004, Airbus Gross Asset Value Exposure (discounted present value of future guaranteed tranches) was U.S.$3.0 billion (€2.2 billion). The off-balance sheet portion of Airbus Gross Asset Value, representing AVGs with net present values of less than 10% of the sales price of the corresponding aircraft, was €810 million, excluding €413 million where the risk is considered to be remote. In many cases, the risk is limited to a specific portion of the residual value of the aircraft. The remaining Airbus Gross Asset Value Exposure is recorded on-balance sheet.

Net Exposure. The present value of the risk inherent to the given asset value guarantees, where a settlement is considered to be probable, is fully provided for and included in the total amount of provisions for asset value risks of €473 million. This provision covers a potential expected shortfall between the estimated value of the aircraft of the date upon which the guarantee can be exercised and the value guaranteed on a transaction basis taking counter guarantees into account. See "Notes to the Audited Consolidated Financial Statements – Note 19(d): Other provisions."

Backstop Commitments. While commitments to provide financing related to orders on Airbus' and ATR's backlog are also given, such commitments are not considered to be part of gross exposure until the financing is in place, which occurs when the aircraft is delivered. This is due to the fact that (i) past experience suggests it is unlikely that all such proposed financings actually will be implemented (although it is possible that customers not benefiting from such commitments may nevertheless request financing assistance ahead of aircraft delivery), (ii) until the aircraft is delivered, Airbus or ATR retain the asset and do not incur an unusual risk in relation thereto (other than the corresponding work-in-progress), and (iii) third parties may participate in the financing. In order to mitigate Airbus and ATR exposure to unacceptable credits, such commitments typically contain financial conditions that guaranteed parties must satisfy in order to benefit therefrom.

See "Notes to IFRS Consolidated Financial Statements – Note 25: Commitments and Contingencies" for further discussion of EADS' sales financing policies and accounting procedures.

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

1.1.8.2 Exchange Rate Risk

Exchange Rate Exposure. A significant portion of EADS' revenues are denominated in U.S. dollars (approximately U.S.$22 billion for 2004), with approximately half of such currency exposure "naturally hedged" by U.S. dollar-denominated costs. The remainder of costs is incurred primarily in Euro, and to a lesser extent, in Pounds Sterling. Consequently, to the extent that EADS does not use financial instruments to hedge its net current and future exchange rate exposure from the time of a customer order to the time of delivery, its profits will be affected by market changes in the exchange rate of the U.S. dollar against these currencies. Consistent with EADS' policy of generating profits principally from its operations, EADS uses hedging strategies to manage and minimise the impact on its EBIT* from the volatility of the U.S. dollar. See "– 1.1.4 Measurement of Management's Performance – EBIT* Performance by Division – Hedging Impact on EBIT*". See also "1.4.1 Market Risks – Exposure to Foreign Currencies".

As EADS uses financial instruments to hedge only its net foreign currency exposure, the portion of its U.S. dollar-denominated revenues not hedged by financial instruments (approximately 30% of total consolidated revenues) is exposed to changes in exchange rates. Of this non-hedged portion of revenues, a certain percentage (relating to customer pre-delivery payments) are converted into Euro at the spot rate effective at the time the payment was received by EADS. The remainder of non-hedged U.S. dollar-denominated revenues (corresponding to payments upon delivery) are subject to changes in the spot rate at the time of delivery. See "– 1.1.3 Critical Accounting Considerations, Policies and Estimates – Accounting for Foreign Currency Denominated Operations in the Financial Statements".

Exposure on aircraft sales – For products such as aircraft, EADS typically hedges forecasted sales in U.S. dollars related to firm commitments and forecasted transactions for the following year through 2011. The hedged items are defined as the first forecasted highly probable future cash inflows for a given month based upon final payments at delivery. The amount of the first flows to be hedged is decided by a treasury committee and typically covers up to 100% of the equivalent of the net U.S. dollar exposure. For EADS, a forecasted transaction is regarded highly probable if the future delivery is included in the firm order book or is very likely to materialise in view of contractual evidences (e.g., a letter of intent). The coverage ratio is adjusted to take into account macroeconomic movements affecting the spot and interest rates, as applicable.

Exposure on project related business – For project-related business, EADS generally hedges 100% based on specific flows arising out of firm and individual contracts. Hedging is implemented on an individual project basis.

Exposure on treasury operations – In connection with its treasury operations, EADS headquarters enters into foreign exchange swaps (notional amount of €0.3 billion in 2004) to adjust for short-term fluctuations of non-Euro cash balances at the business unit level. Year-to-year changes in the fair market value of these swaps is recorded on the consolidated statement of income in the line item "other financial result". These changes may have a material impact on EADS' net income.

Hedge Portfolio. EADS manages a long-term hedge portfolio with a maturity of several years covering its net exposure to U.S. dollar sales, mainly from the activities of Airbus (and to a lesser extent, of the Aeronautics Division). The net exposure is defined as the total currency exposure (U.S. dollar-denominated revenues), net of the part that is "naturally hedged" by U.S. dollar-denominated costs. The hedge portfolio covers the vast majority of the Group's hedging transactions. As hedging instruments, EADS primarily uses foreign currency forwards and option contracts.

The contract or notional amounts of EADS' foreign exchange derivative financial instruments shown below do not necessarily represent amounts exchanged by the parties and, thus, are not necessarily a measure for the exposure of the Group through its use of derivatives.

The notional amounts of such foreign exchange derivative financial instruments are as follows, specified by year of expected maturity:

	Remaining period			
in €m	Not exceeding 1 year	Over 1 year up to 5 years	More than 5 years	Total
Year ended 31st December 2004				
Net forward sales contracts	7,780	19,829	1,277	28,886
Structured U.S. dollar forward	180	452	0	632
Foreign exchange swap contracts	189	102	0	291

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

1.1.8.3 Interest Rate Risk

EADS uses an asset and liability management approach with the objective of limiting its interest rate risk. The Company attempts to match the risk profile of its assets with a corresponding liability structure. The net interest rate exposure is managed through several types of instruments in order to minimise risks and financial impacts. Therefore, EADS may use interest rate derivatives for hedging purposes.

Hedging instruments that are specifically related to debt instruments have at most the same nominal amounts, as well as the same maturity dates, as the corresponding hedged item.

Regarding the management of its cash balance, EADS invests mainly in short-term instruments and/or floating rate instruments in order to further minimise any interest risk in its cash and securities portfolio.

The contract or notional amounts of EADS' interest rate derivative financial instruments shown below do not necessarily represent amounts exchanged by the parties and, thus, are not necessarily a measure for the exposure of the Group through its use of derivatives.

The notional amounts of such interest rate derivative financial instruments are as follows, specified by expected maturity.

	Remaining period			
in €m	Not exceeding 1 year	Over 1 year up to 5 years	More than 5 years	Total
Year ended 31st December 2004				
Interest rate swaps and caps	0	802	2,964	3,766

Since its creation, EADS has been in a positive net cash position. As interest rate sensitivity analysis is mostly relevant to large borrowers, EADS considers that the added value of such analysis to an understanding of the Company's interest rate exposure is minimal. Such analysis has therefore not been included herein, and the above table of interest rate derivatives has not been correlated with the preceding table of financial debt. As circumstances warrant, EADS will consider including such an analysis in future Reference Documents.

1.1.8.4 Counterparty Credit Risk

EADS is exposed to credit risk to the extent of non-performance by its financial instrument counterparties. However, the Group has policies in place to avoid concentrations of credit risk and to ensure that credit risk is limited.

Cash transactions and derivative counterparties are limited to high credit quality financial institutions. EADS has set up a credit limit system to actively manage and limit its credit risk exposure. This limit system assigns maximum exposure lines to counterparties of financial transactions, based at a minimum on their credit ratings as published by Standard & Poor's, Moody's and Fitch IBCA. The respective limits are regularly monitored and updated.

As counterparty credit risk also arises in the context of sales financing transactions, EADS' policy is to provide financing only to customers and through structures with an appropriate credit standing. See "– 1.1.7 Liquidity and Capital Resources – Sales Financing".

1.1.8.5 Risks on Equity Investment Portfolio

EADS holds several equity investments for industrial reasons. None of the equity investments are held for speculative or trading purposes. Equity investments are either accounted for using the equity method (associated companies), if EADS has the ability to exercise significant influence, or at fair value. If fair value is not readily determinable, the investment is measured at cost.

Changes in the value of equity investments mainly depend on their performance. EADS' principal investment in associates is Dassault Aviation. The net asset value of this investment was €1.7 billion at 31st December 2004. EADS considers its risk to unexpected changes in the value of Dassault Aviation as well as to all other associated companies as remote.

For equity investments other than associates, which make up only a fraction of EADS' total assets, EADS regards the risk of negative changes in fair value or impairments on these investments as non-significant.

Treasury shares held by EADS are not considered to be equity investments. Additionally, treasury shares are not regarded as being exposed to risk, as any change in value of treasury shares is recognised directly in equity only when sold to the market and never affects net income. Treasury shares are primarily held to hedge the dilution risk arising from employee stock ownership plans and the exercise by employees of stock options.

1.2 Financial statements

1.2.1 Consolidated financial statements (IFRS)

Consolidated Income Statements (IFRS) for the years 2004, 2003, 2002

in millions of €	Note	2004	2003	2002
Revenues	5, 6	31,761	30,133	29,901
Cost of sales	7	(25,510)	(24,594)	(24,465)
Gross margin		**6,251**	**5,539**	**5,436**
Selling expenses	7	(798)	(776)	(829)
Administrative expenses	7	(1,321)	(1,386)	(1,422)
Research and development expenses		(2,126)	(2,189)	(2,096)
Other income	8	314	196	248
Other expenses	7	(177)	(823)	(1,177)
thereof goodwill amortization and related impairment losses	11	*0*	*(567)*	*(936)*
Income from operating activities	5	**2,143**	**561**	**160**
Income from investments		84	186	87
thereof income from associates		*88*	*224*	*108*
Interest result		(275)	(203)	(81)
Other financial result		(55)	148	21
Financial result	9	(246)	131	27
Income taxes	10	(664)	(474)	(453)
Profit (loss) from ordinary activities		**1,233**	**218**	**(266)**
Minority interests		(203)	(66)	(33)
Net income (loss)		**1,030**	**152**	**(299)**
Earnings per share		€	€	€
Basic	31	1.29	0.19	(0.37)
Diluted	31	1.28	0.19	(0.37)
Cash distribution per share (2004: proposal)	18	**0.50**	**0.40**	**0.30**

The accompanying notes are an integral part of these Consolidated Financial Statements.

1.2 Financial statements (continued)

Consolidated Balance Sheets (IFRS) at 31st December 2004 and 2003

in millions of €	Note	2004	2003
Assets			
Intangible assets	11	10,008	9,694
Property, plant and equipment	12	12,905	11,448
Investments in associates	13	1,738	1,640
Other investments and long-term financial assets	13	2,352	2,489
Fixed assets		**27,003**	**25,271**
Inventories, net of advances received	14	3,075	3,279
Trade receivables	15	4,406	4,001
Other receivables and other assets	16	11,105	10,280
Securities	17	466	468
Cash and cash equivalents		8,718	7,404
Non-fixed assets		**27,770**	**25,432**
Deferred taxes	10	**2,543**	**2,724**
Prepaid expenses		**951**	**951**
Total assets		**58,267**	**54,378**
Liabilities and shareholders' equity			
Capital stock		810	813
Reserves		10,254	9,589
Accumulated other comprehensive income		6,086	5,934
Treasury shares		(177)	(187)
Shareholders' equity	18	**16,973**	**16,149**
Minority interests		**2,370**	**2,179**
Provisions	19	**8,573**	**8,726**
Financial liabilities	20	5,126	4,767
Trade liabilities	21	5,860	5,117
Other liabilities	21	13,240	11,318
Liabilities		**24,226**	**21,202**
Deferred taxes	10	**4,134**	**3,664**
Deferred income	22	**1,991**	**2,458**
Total liabilities and shareholders' equity		**58,267**	**54,378**

The accompanying notes are an integral part of these Consolidated Financial Statements.

1.2 Financial statements (continued)

Consolidated Statements of Cash Flows (IFRS) for the years 2004, 2003 and 2002

in millions of €	Note	2004	2003	2002
Net income (loss)		**1,030**	**152**	**(299)**
Income applicable to minority interests		203	66	33
Adjustments to reconcile net income (loss) to cash provided by operating activities:				
Depreciation and amortization of fixed assets		1,621	2,375	2,768
Valuation adjustments and CTA release		(200)	263	177
Deferred tax expenses (income)		537	(138)	255
Results on disposal of fixed assets / businesses and result of associates (equity method)		(96)	(274)	(227)
Change in provisions		(237)	246	(845)
Change in other operating assets and liabilities:		**2,155**	**2,019**	**804**
– Inventories, net		282	160	274
– Trade receivables		(403)	168	895
– Trade liabilities		756	116	(139)
– Other assets and liabilities		1,520	1,575	(226)
Cash provided by operating activities		**5,013**	**4,709**	**2,666**
Investments:				
– Purchases of intangible and fixed assets		(3,017)	(2,672)	(2,213)
– Proceeds from disposals of intangible and fixed assets		36	47	120
– Acquisitions of subsidiaries (net of cash)	23	(100)	(92)	(19)
– Proceeds from disposals of subsidiaries (net of cash)		0	32	84
– Payments for investments in other financial assets		(482)	(728)	(1,115)
– Proceeds from disposals of other financial assets		492	346	735
– Increase in equipment of leased assets		(656)	(279)	(101)
– Proceeds from disposals of leased assets		74	8	120
– Increase in finance lease receivables		(261)	(443)	(749)
– Decrease in finance lease receivables		110	84	150
– Dividends paid by companies valued at equity		36	38	30
Change in securities		10	336	(264)
Change in cash from changes in consolidation		9	(152)	5
Cash used for investing activities		**(3,749)**	**(3,475)**	**(3,217)**
Change in financial liabilities	23	474	1,132	(774)
Cash distribution to EADS N.V. shareholders		(320)	(240)	(403)
Repayments/dividends to minorities		(64)	(38)	(127)
Capital increase		43	21	16
Purchase of treasury shares		(81)	(31)	(156)
Others		0	8	(3)
Cash provided by (used for) financing activities		**52**	**852**	**(1,447)**
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents		(2)	(83)	(82)
Net increase (decrease) in cash and cash equivalents		**1,314**	**2,003**	**(2,080)**
Cash and cash equivalents at beginning of period		**7,404**	**5,401**	**7,481**
Cash and cash equivalents at end of period		**8,718**	**7,404**	**5,401**

The following represents supplemental information with respect to cash flows from **operating activities**:

in millions of €	2004	2003	2002
Interest paid	(367)	(311)	(407)
Income taxes paid	(302)	(383)	(318)
Interest received	329	338	403
Dividends received	57	55	49

The accompanying notes are an integral part of these Consolidated Financial Statements.

For details, see Note 23, "Consolidated Statement of Cash Flows".

Consolidated Statements of Changes in Shareholders' Equity (IFRS) for the years 2004, 2003 and 2002

in millions of €	Note	Capital stock	Share premium	Other reserves	Accumulated other comprehensive income	Treasury shares	Total equity
Balance at 31st December 2001		**809**	**9,524**	**822**	**(1,278)**	**–**	**9,877**
Capital increase		2	14				16
Net loss				(299)			(299)
Cash distribution to EADS N.V. shareholders				(403)			(403)
Purchase of treasury shares						(156)	(156)
Other comprehensive income					3,730		3,730
thereof changes in fair values of securities					(10)		
thereof changes in fair values of hedging instruments					2,713		
thereof currency translation adjustments					1,027		
Balance at 31st December 2002		**811**	**9,538**	**120**	**2,452**	**(156)**	**12,765**
Capital increase		2	19				21
Net income				152			152
Cash distribution to EADS N.V. shareholders			(240)				(240)
Purchase of treasury shares						(31)	(31)
Other comprehensive income					3,482		3,482
thereof changes in fair values of securities					154		
thereof changes in fair values of hedging instruments					2,524		
thereof currency translation adjustments					804		
Balance at 31st December 2003		**813**	**9,317**	**272**	**5,934**	**(187)**	**16,149**
Capital increase	18	2	41				43
Net income				1,030			1,030
Cash distribution to EADS N.V. shareholders			(320)				(320)
Purchase of treasury shares	18					(81)	(81)
Cancellation of treasury shares	18	(5)	(86)			91	0
Other comprehensive income					152		152
thereof changes in fair values of securities					33		
thereof changes in fair values of hedging instruments	26				478		
thereof currency translation adjustments					(359)		
Balance at 31st December 2004		**810**	**8,952**	**1,302**	**6,086**	**(177)**	**16,973**

The accompanying notes are an integral part of these consolidated financial statements.

1.2 Financial statements (continued)

Notes to the consolidated financial statements (IFRS)
Basis of presentation

1. The Company

The accompanying Consolidated Financial Statements present the operations of **European Aeronautic Defence and Space Company EADS N.V.** and its subsidiaries ("EADS" or the "Group"), a Dutch public limited liability company (Naamloze Vennootschap) legally seated in Amsterdam (Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, The Netherlands). EADS' core business is the manufacturing of commercial aircraft, civil helicopters, commercial space launch vehicles, missiles, military aircraft, satellites, defence systems and defence electronics and rendering of services related to these activities. The Consolidated Financial Statements were authorised for issue by EADS' Board of Directors on 8th March 2005 and are prepared and reported in Euro ("€").

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of Preparation – EADS' Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**"), adopted by the International Accounting Standards Board ("**IASB**"). They comprise (i) IFRS, (ii) International Accounting Standards ("**IAS**") and (iii) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or former Standing Interpretations Committee ("**SIC**").

At the end of March 2004, the IASB completed Phase I of its ongoing Business Combinations Project and adopted new IFRS 3 "Business Combinations", superseding IAS 22 "Business Combinations", as well as revised Standards IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets". EADS decided to early adopt IFRS 3, revised IAS 36 and IAS 38 and to apply these standards as of 1st January 2004 mainly due to the abolishment of goodwill amortisation. Consequently, EADS changed its accounting policies regarding the accounting for impairment testing, intangible assets and business combinations with an agreement date after 31st December 2003. This has been done prospectively in accordance with transitional provisions required by IFRS 3, IAS 36 and IAS 38. Until 31st December 2003, goodwill was amortized on a straight line basis over a period ranging from five to 20 years and assessed for an indication of impairment at each balance sheet date.

Starting with 1st January 2004, any goodwill acquired in a business combination irrespective of whether recognised before or after 31st December 2003 has no longer been amortized but tested annually for impairment as well as whenever there are indications of impairment. Same rule applies to any goodwill arising from an interest in a jointly controlled entity and for investments accounted for by applying the equity method. The Group has reassessed the useful lives of intangible assets in accordance with the provisions of IAS 38. No adjustment resulted from this reassessment.

Besides the revisions of thirteen IAS in conjunction with the Improvements Project (published in December 2003) the IASB released in 2004 four more standards, five interpretations as well as amendments/revisions to IAS 19, IAS 32 and IAS 39 and SIC 12, as listed below:

Improvements Project:

IAS 1 Presentation of Financial Statements

IAS 2 Inventories

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10 Events after Balance Sheet Date

IAS 16 Property, Plant and Equipment

IAS 17 Leases

IAS 21 The Effects of Changes in Foreign Exchange Rates

IAS 24 Related Party Disclosure

IAS 27 Consolidated and Separate Financial Statements

IAS 28 Investments in Associates

IAS 31 Interests in Joint Ventures

IAS 33 Earnings per Share

IAS 40 Investment Property

New Standards:

IFRS 2 Share-based Payment

IFRS 4 Insurance Contracts

IFRS 5 Non-current Assets held for sale and Discontinued Operations

IFRS 6 Exploration for and Evaluation of Mineral Resources

New Interpretations:

IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities

IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments

IFRIC 3 Emission Rights

IFRIC 4 Determining whether an Arrangement contains a Lease

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Amendments / Revisions:

IAS 19 Employee Benefits

Amendment (December 2004): Actuarial Gains and Losses, Group Plans and Disclosure

IAS 32 Financial Instruments: Disclosure and Presentation

Revision (December 2003)

Amendment (March 2004)

IAS 39 Financial Instruments: Recognition and Measurement:

Revision (December 2003)

Amendment (March 2004): Fair Value Hedge Accounting for Portfolio Hedge of Interest Rate Risk

Amendment (December 2004): Transition and Initial Recognition of Financial Assets and Financial Liabilities

SIC 12 Consolidation – Special Purpose Entities

Amendment (November 2004): Scope of SIC 12

While IFRS 6, IFRIC 3 to IFRIC 5 and December 2004 amendments to IAS 19 and IAS 39 have a later effective date, all other Standards and Interpretations listed above become mandatory to the Group's Financial Statements for the accounting period beginning on 1st January 2005. Except for IFRS 3, IAS 36 and IAS 38, EADS has abandoned the option to early adopt any of the new, revised or amended standards or interpretations before they become effective.

Changes in Accounting Policy – In 2003, EADS changed its accounting policy regarding capitalisation of product related development costs, as applied under the benchmark rules detailed in IAS 8, "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". As of 31st December 2003, product related development costs that had, as a policy, previously been expensed in the period incurred, have been retrospectively assessed for capitalisation unless the amount of any resulting adjustment that relates to prior periods has not been reasonably determinable. Due to the complexity of its products (especially civil aircraft like A 380), EADS considers processes carried out in the various research and development phases are of such interaction that a proper distinction between research and development phases cannot be made up to only a very late stage of the program. In addition, for past programs, retroactive proper allocation of costs as required by IAS 38 has not been possible because there was no system in place to gather the necessary information. The policy for capitalising product related development as internally generated intangible assets is described below. The effects of the application of IAS 38, "Intangible Assets", are disclosed in Note 11.

Consolidation – The Consolidated Financial Statements include the subsidiaries under the control of EADS. Investments in which EADS has significant influence ("Investments in associates") are accounted for using the equity method. For investments in joint ventures, EADS uses the proportionate method of consolidation. The effects of intercompany transactions are eliminated.

Business Combinations with an agreement date on or before 31st December 2003 have been accounted for by using the purchase accounting method in accordance with IAS 22.

Since 1st January 2004, business combinations are accounted for under the purchase accounting method as required by IFRS 3; all identifiable assets acquired, liabilities and contingent liabilities incurred or assumed are recorded at fair value at the date control is transferred to EADS (acquisition date), irrespective of the extent of any minority interest. The cost of a business combination is measured at the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is capitalized as goodwill and tested for impairment at the end of each financial year and whenever there is an indication for impairment. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the identification and measurement of the identifiable assets, liabilities and contingent liabilities is reassessed as well as the measurement of the cost of the combination. Any remaining difference is immediately recognised in the Consolidated Income Statement.

Special purpose entities ("**SPEs**") are consolidated, when the relationship between the Group and a SPE indicates that the SPE is in substance controlled by the Group. SPEs are entities which are created to accomplish a narrow and well-defined objective.

Foreign Currency Translation – The assets and liabilities of foreign entities, where the reporting currency is other than Euro, are translated using period-end exchange rates, while the statements of income are translated using average exchange rates during the period, approximating the foreign exchange rate at the dates of the transactions. All resulting translation

1.2 Financial statements (continued)

differences are included as a separate component of shareholders' equity ("Accumulated other comprehensive income" or "AOCI").

Transactions in foreign currencies are translated into Euro at the foreign exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euro at the exchange rate in effect at that date. Foreign exchange gains and losses arising from translation are recognized in the Consolidated Income Statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Euro at the foreign exchange rate in effect at the date of the transaction.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquiring company and are recorded at the exchange rate at the date of the transaction.

Revenue Recognition – Revenue from the sale of goods is recognized upon the transfer of risks and rewards of ownership to the buyer and when the amount of revenue can be measured reliably. Revenue from services rendered is recognized in proportion to the stage of completion of the transaction at the balance sheet date. For construction contracts, when the outcome can be estimated reliably, revenue is recognized by reference to the stage (percentage) of completion ("**PoC**") of the contract activity. The stage of completion of a contract may be determined by a variety of ways. Depending on the nature of the contract, revenue is recognized as contractually agreed-upon milestones are reached, as units are delivered or as the work progresses. Changes in profit rates are reflected in current earnings as identified. Contracts are reviewed regularly and in case of probable losses, provisions are recorded.

Incentives applicable to performance on contracts are considered in estimated profit rates and are recorded when anticipated contract performance is probable and can be reliably measured.

Sales of aircraft that include asset value guarantee commitments are accounted for as operating leases when these commitments are considered substantial compared to the fair value of the related aircraft. Revenues then comprise lease income from such operating leases.

Product-Related Expenses – Expenses for advertising and sales promotion and other sales-related expenses are charged to expense as incurred. Provisions for estimated warranty costs are recorded at the time the related sale is recorded.

Research and Development Expenses – Research and development activities can be (i) contracted or (ii) self-initiated.

i) Costs for contracted research and development activities, carried out in the scope of externally financed research and development contracts, are expensed when the related revenues are recorded.

ii) Costs for self-initiated research and development activities are assessed whether they qualify for recognition as internally generated intangible assets. Apart from complying with the general requirements for and initial measurement of an intangible asset, qualification criteria are met only when technical as well as commercial feasibility can be demonstrated and cost can be measured reliably. It must also be probable that the intangible asset will generate future economic benefits and that it is clearly identifiable and allocable to a specific product.

Further to meeting these criteria, only such costs that relate solely to the development phase of a self-initiated project are capitalized. Any costs that are classified as part of the research phase of a self-initiated project are expensed as incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project related costs are treated as if they were incurred in the research phase only.

Capitalized development costs are generally amortized over the estimated number of units produced if no other procedure reflects the consumption pattern more appropriately and are reviewed for impairment annually when the asset is not yet in use and further on whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Income Taxes – Tax expense (tax income) is the aggregate amount included in the determination of net profit or loss for the period in respect of (i) Current tax and (ii) Deferred tax.

i) Current tax is the amount of income taxes payable or recoverable in a period. Current income taxes are calculated applying respective tax rates on the periodic taxable profit or tax loss that is determined in accordance with rules established by the competent taxation authorities. Current tax liabilities are recognised for current tax to the extent unpaid for current and prior periods. A current tax asset is recognised in case the tax amount paid exceeds the amount due to current and prior periods. The benefit of a tax loss that can be carried back to recover current tax of a previous period is recognised as an asset provided that the related benefit is probable and can be measured reliably.

ii) Deferred tax assets and liabilities reflect lower or higher future tax consequences that result for certain assets and liabilities from temporary valuation differences between the financial statement carrying amounts and their respective tax bases as well as from net operating losses and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period the new rates are enacted or substantially enacted. As deferred tax assets anticipate potential future tax benefits, they are recorded in the Consolidated Financial Statements of EADS only when it is probable that the tax benefits will be realized. The carrying amount of deferred tax assets is reviewed at each financial year end.

Intangible Assets – Intangible assets comprise (i) internally generated intangible assets, i.e. internally developed software and other internally generated intangible assets (see above: Research and development expenses), (ii) acquired intangible assets, and (iii) goodwill (see above: Consolidation).

Acquired intangible assets are valued at acquisition cost and are generally amortized over their respective useful lives (3 to 10 years) on a straight line basis. Intangible assets having an indefinite useful life are not amortized but tested for impairment at the end of each financial year as well as whenever there is an indication that the carrying amount exceeds the recoverable amount of the respective asset.

Property, Plant and Equipment – Property, plant and equipment is valued at acquisition or manufacturing costs less any accumulated depreciation and any accumulated impairment losses. Depreciation expense is recognized generally using the straight-line method. The costs of internally produced equipment and facilities include direct material and labour costs and applicable manufacturing overheads, including depreciation charges. Borrowing costs are not capitalized. The following useful lives are assumed: buildings 6 to 50 years; site improvements 6 to 20 years; technical equipment and machinery 3 to 20 years; and other equipment, factory and office equipment 2 to 10 years. The useful lives and depreciation methods applied to property, plant and equipment are reviewed periodically and in case they change significantly depreciation charges for current and future periods are adjusted accordingly. If the carrying amount of any asset exceeds its recoverable amount an impairment loss is recognised immediately in profit or loss. At each reporting date it is assessed whether there is any indication that an item of property, plant and equipment may be impaired.

Property, plant and equipment includes capitalized development costs for tangible developments of specialized tooling for production such as jigs and tools, design, construction and testing of prototypes and models. In case recognition criteria are met, these costs are capitalized and generally depreciated using the straight-line method over 5 years or, if more appropriate, using the number of production or similar units expected to be obtained from the tools (sum-of-the-units method). Especially for aircraft production programs such as the Airbus A380 with an estimated number of aircraft to be produced using such tools, the sum-of-the-units method effectively allocates the diminution of value of specialized tools to the units produced.

Investment Property – The group accounts for investment property using the cost model. Investment property is recorded on balance sheet at book value, that is, at cost less any accumulated depreciation and any accumulated impairment losses. The fair value of investment property is reviewed annually by using cash-flow models or by determinations of open market prices.

Impairment of Assets – The Group assesses at each reporting date whether there is an indication that an asset may be impaired. In addition, intangible assets with an indefinite useful life, intangible assets not yet available for use and goodwill are tested for impairment at the end of each financial year irrespective of whether there is any indication of impairment. If the carrying amount exceeds the recoverable amount, the respective asset or the assets in the cash-generating unit are written down to their recoverable amounts.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The discount rates used are consistent with estimated future cash flows to avoid any double-counting or disregard of certain effects such as inflation or taxes. The discount rates used for determining the value of an asset are pre-tax rates that reflect current market assessment of (i) the time value of money and (ii) the risk specific to the asset for which the future cash flow estimates have not been adjusted. These rates are estimated from the rate implicit in current market transactions for similar assets or from the weighted average cost of capital of a comparable listed entity. These rates in question shall reflect the return that investors would require for an investment in the asset under review.

1.2 Financial statements (continued)

Impairment losses recognised for goodwill are not reversed. Those for investments in equity instruments classified as available-for-sale financial assets (see below: Investments) are reversed through AOCI. For any other asset an impairment loss recognised in prior periods is reversed through profit or loss up to its recoverable amount provided that there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss has been recognised. The respective asset's carrying amount is increased to its recoverable amount taken into account any amortisation or depreciation that would have been chargeable on the asset's carrying amount since the last impairment loss.

Leasing – The Group is a lessor and a lessee of assets, primarily in connection with commercial aircraft sales financing. Lease transactions where substantially all risks and rewards incident to ownership are transferred from the lessor to the lessee are accounted for as finance leases. All other leases are accounted for as operating leases.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less depreciation (see Note 12, "Property, plant and equipment"). Rental income from operating leases (e.g. aircraft) is recorded as revenue over the term of the lease. Assets leased out under finance leases cease to be recognized in the balance sheet after the inception of the lease. Instead, a finance lease payments receivable representing the discounted future lease payments to be received from the lessee plus any discounted unguaranteed residual value is recorded as long-term financial assets (see Note 13, "Other investments and long-term financial assets"). Unearned finance income is recorded over time in "Financial result". Revenues and the related cost of sales are recognised at the inception of the finance lease.

Assets obtained under finance leases are included in property, plant and equipment at cost less depreciation (see Note 12, "Property, plant and equipment"), unless such assets have been further leased out to customers. In such a case, the respective asset is either qualified as an operating lease or as a finance lease with EADS being the lessor (headlease-sublease-transaction) and is recorded accordingly. For the relating liability from finance leases see Note 20, "Financial liabilities". When EADS is the lessee under an operating lease contract, rental payments are recorded when they fall due (see Note 25, "Commitments and contingencies" for future operating lease commitments). Such leases often form part of commercial aircraft customer financing transactions with the related sublease being an operating lease (headlease-sublease-transaction).

EADS considers headlease-sublease-transactions which are set up for the predominant purpose of tax advantages and which are secured by bank deposits (defeased deposits) that correspond with the contractual head lease liability to be linked and accounts for such arrangements as one transaction in accordance with SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". To reflect the substance of the transaction, the Group consequently offset (head) finance lease obligations with the matching amount of defeased deposits.

Investments – The Group's investments comprise investments in associates (see above: Consolidation), other investments and long-term financial assets as well as current investments like securities and cash equivalents (see below: Cash and cash equivalents).

Within EADS all participations in unconsolidated entities are classified as non-current available-for-sale financial assets. They are included in the line **other investments and long-term financial assets** in the Consolidated Balance Sheet.

All of the Group's **securities** are debt securities and classified as available-for-sale financial assets.

Financial assets classified as available-for-sale are accounted for at fair value. Management determines the appropriate classification at the time of purchase and reassesses such determination at each balance sheet date. Unrealised gains and losses on available-for-sale financial assets are recognised directly within AOCI, a separate component of shareholders' equity, net of applicable deferred income taxes. As soon as such financial assets are sold or otherwise disposed of, or are determined to be impaired, the cumulative gain or loss previously recognised in equity is recorded as part of "Financial Result" in the Consolidated Income Statement for the period.

The fair value of quoted investments is based on current market prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using generally accepted valuation techniques on the basis of market information available at the reporting date. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably estimated by alternative valuation methods, such as discounted cash flow model, are measured at cost, less any accumulated impairment losses. All purchases and sales of securities are recognized on settlement date according to market conventions.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are classified as **trade** and **other receivables**.

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. Equity investments classified as available-for-sale are considered for impairment in case of a significant or prolonged decline of their fair value below their cost. Any impairment loss recognised in the Consolidated Income Statement on equity instruments is not reversed through the Consolidated Income Statement (see above: Impairment of assets).

Inventories – Inventories are measured at the lower of acquisition or manufacturing cost and net realizable value. Manufacturing costs comprise all costs that are directly attributable to the manufacturing process, such as direct material and labour, and production related overheads (based on normal operating capacity), including depreciation charges. Borrowing costs are not capitalized. Inventory is presented in the Consolidated Balance Sheet net of advance payments received for construction, delivery and service contracts.

Trade Receivables – Trade receivables include claims arising from revenue recognition that are not yet settled by the debtor as well as receivables relating to PoC revenue recognition. Trade receivables are initially recognized at fair value and, provided they are not expected to be realised within one year are subsequently measured at amortized cost using the effective interest method. If it is probable that the Group is not able to collect all amounts due according to the original terms of receivables, an impairment has occurred. The amount of the impairment loss is equal to the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate, i.e. the rate that exactly discounts the expected stream of future cash payments through maturity or the next market-based repricing date to the current net carrying amount of the financial asset. The carrying amount of the trade receivable is reduced through use of an allowance account. The loss is recognised in the Consolidated Income Statement.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash on hand, cash in bank, checks, fixed deposits having a short-term maturity and short-term securities that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Derivative Financial Instruments – Within EADS derivative financial instruments are (a) used for hedging purposes in micro-hedging strategies to offset the Group's exposure to identifiable transactions and are (b) a component of hybrid financial instruments that include both the derivative and host contract ("**Embedded Derivatives**").

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", derivative financial instruments are initially recognized in the Consolidated Balance Sheet at cost and are subsequently measured at fair value. While derivative financial instruments with positive fair values are recorded in "Other receivables and other assets", such derivative financial instruments with negative fair values are recorded as "Provisions for financial instruments".

a) Hedging: The Group seeks to apply hedge accounting to all its hedging activities. Hedge accounting recognises symmetrically the offsetting effects on net profit or loss of changes in the fair values of the hedging instrument and the related hedged item. The conditions for such a hedging relationship to qualify for hedge accounting include: The hedge transaction is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk, the effectiveness of the hedge can be reliably measured and there is adequate documentation of the hedging relationships at the inception of the hedge.

Depending on the nature of the item being hedged, EADS classifies hedging relationships that qualify for hedge accounting as either (i) hedges of the fair value of recognised assets or liabilities ("**Fair Value Hedges**"), (ii) hedges of the variability of cash flows attributable to recognised assets or liabilities, highly probable forecasted transactions or unrecognised firm commitments ("**Cash Flow Hedges**") or (iii) hedges of a net investment in a foreign entity.

i) Fair Value Hedge: Fair value hedge accounting is mainly applied to certain interest rate swaps. For derivative financial instruments designated as fair value hedges, changes in fair value of both the hedging instrument and the hedged asset or liability are simultaneously recognised in the Consolidated Income Statement.

ii) Cash Flow Hedge: The Group applies cash flow hedge accounting generally to foreign currency derivative contracts on future sales as well as to certain interest rate swaps. Changes in fair value of the hedging instruments related to the effective part of the hedge are reported in a separate component of shareholder's equity AOCI, net of applicable income taxes and recognized in the Consolidated Income Statement in conjunction with the result of the underlying

1.2 Financial statements (continued)

Notes to the consolidated financial statements (IFRS)
Basis of presentation

hedged transaction, when realised. Any hedge ineffectiveness is immediately recorded in "Net income (loss)". If hedged transactions are cancelled or postponed for more than a relatively short period of time, gains and losses on the hedging instrument that were previously recorded in equity are generally recognized in profit or loss.

iii) Net Investment Hedge: Hedges of net investments in foreign entities are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in AOCI; the gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement.

Gains and losses accumulated in AOCI are included in the Consolidated Income Statement when the foreign entity is disposed of.

In case certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39, changes in fair value of such derivative financial instruments are recognized immediately in "Net income (loss)".

b) Embedded Derivatives: Derivative components embedded in a non-derivative-host contract are separately recognized and measured at fair value if they meet the definition of a derivative and their economic risks and characteristics are not clearly and closely related to those of the host contract. Changes in fair value of these instruments are recorded in "Other Financial Result".

See Note 26, "Information about financial instruments" for a description of the group's financial risk management strategies, the fair values of the Group's derivative financial instruments as well as the methods used to determine such fair values.

Provisions – Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation's amount can be made.

Provisions for financial guarantees corresponding to aircraft sales are recorded to reflect the underlying risk to the Group in respect of guarantees given when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimates can be made of the amount of the obligation. The amount of these provisions is calculated to cover the difference between the Group exposure and the estimated value of the collateral.

Outstanding costs are provided for at the best estimate of future cash outflows. Provision for other risks and charges relate to identifiable risks representing amounts expected to be realized.

Provisions for contract losses are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write-downs of work-in-process for that portion of the work which has already been completed, and as provisions for risks for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

Provisions for litigation and claims are set in case legal actions, governmental investigations, proceedings and other claims are pending or may be instituted or asserted in the future against the Group which are a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required for the settlement and a reliable estimate of the obligation's amount can be made.

The valuation of **pension and post-retirement benefits** classified as defined benefit plans is based upon the projected unit credit method in accordance with IAS 19, "Employee Benefits". According to the corridor approach of IAS 19.92, EADS does not recognize actuarial gains and losses as income and expense unless, they exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets. Such actuarial gains and losses are deferred and recorded over the expected average remaining working lives of the employees participating.

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

When sufficient information is not available to use defined benefit accounting for a defined benefit multi-employer plan, the Group accounts for the plan as if it were a defined contribution plan.

Financial Liabilities – Financial liabilities are recorded initially at the proceeds received, net of transaction costs incurred. Subsequently, financial liabilities are measured at amortized cost using the effective interest rate method with any difference between proceeds (net of transaction costs) and redemption amount being recognized in "Financial result" over the period of the financial liability.

Refundable Advances – Refundable advances from European Governments are provided to the Group to finance research and development activities for certain projects on a risk-sharing basis, i.e. they have to be repaid to the European Governments according to the success of the project. Because of their risk-sharing basis, such refundable advances are recorded as "Other Liabilities".

Equity Compensation Plans – EADS classifies equity compensation plans as either compensatory plans or non-compensatory plans. If a plan qualifies as a non-compensatory plan, no compensation expense is recorded. On the other hand, a compensatory plan may result in recognition of compensation expense. Upon adoption of a new plan, the Group determines whether the plan is compensatory or non-compensatory. EADS recognises all employee stock ownership plans to be non-compensatory if, at grant date, the granted discount does not exceed a significant portion of the market share price, and the plan covers virtually all of the Group's employees.

Compensation cost for compensatory equity compensation plans is measured on the measurement date, which is the date on which both the number of shares and the exercise price are first known, using the intrinsic-value-based method of accounting. If the terms of the plan or award are such that the number of shares and exercise price are set on the grant date, fixed-plan accounting applies. If, on the other hand, the number of shares, the exercise price, or both is not "fixed" on the grant date, variable-plan accounting applies.

Fixed-plan accounting prescribes calculating compensation cost on the grant date. When the share price at grant date exceeds significantly the granted exercise price, compensation has to be recognized as compensation expense over the vesting period. The compensation cost that is calculated cannot be adjusted (assuming that future events do not trigger the need to subsequently apply variable-plan accounting or to re-measure compensation cost) for future changes in the stock-based compensation award's intrinsic value. On the other hand, variable-plan accounting requires a continual recalculation of compensation cost until both the number of shares and the exercise price are known (i.e., until there has been a measurement date).

Litigation and Claims – Various legal actions, governmental investigations, proceedings and other claims are pending or may be instituted or asserted in the future against the Group. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. EADS believes that it has made adequate provisions to cover current or contemplated litigation risks. It is reasonably possible that the final resolution of some of these matters may require the Group to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. The term "reasonably possible" is used herein to mean that the chance of a future transaction or event occurring is more than remote but less than likely. Although the final resolution of any such matters could have an effect on the Group's consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve would be recorded, the Group believes that any such potential adjustment should not materially affect its Consolidated Financial Statements.

Use of Estimates – The preparation of the Group Financial Statements in accordance with IFRS requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Scope of consolidation

Perimeter of consolidation (31st December 2004) – The Consolidated Financial Statements include, in addition to EADS N.V.:

- 250 companies which are fully consolidated
- 23 companies which are proportionately consolidated,
- 20 companies which are investments in associates and are accounted for using the equity method.

Significant subsidiaries, associates, and joint ventures are listed in the appendix entitled "Information on principal investments".

4. Acquisitions and disposals

a) Acquisitions

On 4th October 2004, the Group acquired RIG Holdings, Inc., Delaware/USA together with its subsidiaries Racal Instruments US and Racal Instruments Group Ltd. from RIG Holdings, LP, Delaware for an amount of US$105 million cash and debt free. EADS has agreed with the sellers to an earn out formula whereby the Group pays up to additional US$25 million for guaranteed future order intake until 30th June 2005. The impact of the acquisition to the

1.2 Financial statements (continued)

Notes to the consolidated financial statements (IFRS)
Basis of presentation

Consolidated Financial Statements is not material. The initial accounting for this business combination is determined on a provisional basis.

In 2003, EADS acquired BAE SYSTEMS' ("**BAES**") 25 percent interest (27,5 percent economic share) in Astrium N.V. The transaction was signed on 30th January 2003 and is accounted for under the purchase method. Control of Astrium N.V. has been transferred to EADS at this date. At completion of this transaction, EADS acquired BAES' share in Astrium N.V. for €84 million. Prior to completion, EADS and BAES each made a capital contribution into Astrium N.V. of €84 million (total €168 million). Taking the cash contribution into account, BAES' interest has been effectively transferred to EADS for no net cash consideration.

On 21st October 2003, a Dornier family member being shareholder of Dornier GmbH exercised a put option and offered 17.7% of the shares in Dornier GmbH to DaimlerChrysler. DaimlerChrysler exercised the right to sell its shares to DADC Luft- und Raumfahrt Beteiligungs AG ("**DADC**"), a subsidiary of EADS, in the amount of €62 million. As a result, EADS holds indirectly through DADC 94% of the share of Dornier GmbH (2002: 76%). The minority stockholders of Dornier GmbH, a subsidiary of DADC Luft- und Raumfahrt Beteiligungs AG, have the right, exercisable at any time, to exchange their shareholdings in Dornier GmbH for cash or holdings in Daimler Chrysler AG or its subsidiary DaimlerChrysler Luft-und Raumfahrt Holding Aktiengesellschaft. In December 2004, DADC, a subsidiary of EADS N.V., signed a binding offer with Daimler Chrysler AG to take on all shares (3.5%) which a Dornier family member has offered to Daimler Chrysler AG according to a put-option agreement. The closing of the transaction is expected to be effective in 2005.

As of 31st December 2003, EADS obtained control of ASL Aircraft Services Lemwerder GmbH. The acquisition costs for the company amount to €15 million.

Apart from those mentioned, other acquisitions by the Group are not significant.

b) Disposals

In 2003, Nortel Networks and EADS reorganized their joint telecommunications activities in France and Germany. On 18th September 2003, EADS exchanged its 42 percent ownership interest in Nortel Networks Germany GmbH & Co. KG and its 45 percent ownership interest in Nortel Networks France S.A.S. for a 41 percent interest in EADS Telecom France S.A.S. ("**ETF**"), a net additional payment of €42 million by Nortel Networks and a waiver of Nortel Networks for financial receivables of €72 million. At completion of transaction, EADS holds 100% of the shares of ETF.

Apart from the mentioned, other disposals by the Group were not significant.

c) Subsequent changes in value of assets and liabilities acquired and cost of acquisition

In 2004, no material subsequent changes in the value of assets and liabilities acquired and cost of acquisition occurred.

1.2 Financial statements (continued)

Notes to the IFRS consolidated statements of income

5. Segment Reporting

The Group operates in 5 divisions (segments) which reflect the internal organizational and management structure according to the nature of the products and services provided:

- *Airbus* – Development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats and the development and manufacturing of aircraft for military use.
- *Military Transport Aircraft* – Development, manufacturing, marketing and sale of military transport aircraft and special mission aircraft.
- *Aeronautics* – Development, manufacturing, marketing and sale of civil and military helicopters, regional turboprop aircraft and light commercial aircraft; and civil and military aircraft conversion and maintenance services.
- *Defence & Security Systems* – Development, manufacturing, marketing and sale of missiles systems; military combat and training aircraft; and provision of defence electronics, defence-related telecommunications solutions; and logistics, training, testing, engineering and other related services.
- *Space* – Development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers; and provision of space services.

The following tables present information with respect to the Group's business segments. Consolidation effects, the holding function of EADS headquarters and other activities not allocable to the divisions are disclosed in the column "HQ/Conso".

a) Business Segment Information for the year ended 31st December 2004

in €m	Airbus	Military Transport Aircraft	Aeronautics	Defence & Security Systems	Space	HQ/Conso.	Consolidated
Total revenues	20,224	1,304	3,876	5,385	2,592	31	**33,412**
Internal revenues	(621)	(227)	(356)	(424)	(10)	(13)	**(1,651)**
Revenues	19,603	1,077	3,520	4,961	2,582	18	**31,761**
EBIT pre goodwill amortization and exceptionals (see definition below)	1,922	26	206	228	10	52	2,444
Income from operating activities	1,796	13	202	212	0	(80)	2,143
Income from associates	7	0	0	3	0	78	88
Income/loss from other investments, interest and other financial result							(334)
Income taxes							(664)
Profit from ordinary activities							1,233
Minority interest							(203)
Net income							1,030
Other information							
Identifiable segment assets (incl. goodwill)[1]	32,408	1,159	4,234	8,998	4,239	4,383	55,421
Goodwill	6,342	12	111	2,407	559	29	9,460
Investments in associates	0	0	9	24	0	1,705	1,738
Segment liabilities[1]	19,290	940	3,153	6,481	4,027	709	34,600
Capital expenditures	2,778	49	177	174	423	72	3,673
Depreciation, amortization	1,088	34	106	139	110	144	1,621
Research and development expenses	1,734	26	68	185	61	52	2,126

1 Segment assets and liabilities exclude current and deferred tax assets and liabilities.

1.2 Financial statements (continued)

Notes to the IFRS consolidated statements of income

b) Business Segment Information for the year ended 31st December 2003

in €m	Airbus	Military Transport Aircraft	Aeronautics	Defence & Security Systems	Space	HQ/Conso.	Consolidated
Total revenues	19,048	934	3,803	5,165	2,424	81	**31,455**
Internal revenues	(363)	(236)	(372)	(319)	(10)	(22)	**(1,322)**
Revenues	18,685	698	3,431	4,846	2,414	59	**30,133**
EBIT pre goodwill amortization and exceptionals (see definition below)	1,353	30	217	171	(400)	172	1,543
Income from operating activities	809	15	203	19	(425)	(60)	561
Income from associates	5	0	0	(6)	0	225	224
Income/loss from other investments, interest and other financial result							(93)
Income taxes							(474)
Profit from ordinary activities							218
Minority interest							(66)
Net income							152
Other information							
Identifiable segment assets (incl. goodwill)[2]	29,290	930	3,978	8,743	3,717	4,664	51,322
Goodwill	6,342	0	111	2,321	545	53	9,372
Investments in associates	0	0	0	7	0	1,633	1,640
Segment liabilities[1]	17,501	675	2,948	6,670	3,544	715	32,053
Capital expenditures	2,027	28	142	207	473	74	2,951
Depreciation, amortization	1,628	31	136	287	134	159	2,375
Research and development expenses	1,819	23	62	223	62	0	2,189

1 Segment assets and liabilities exclude current and deferred tax assets and liabilities.

As a rule, inter-segment transfers are carried out on an arm's length basis. Inter-segment sales predominantly take place between Aeronautics, Defence & Security Systems and Airbus; as the Aeronautics and Defence & Security Systems divisions act as suppliers for Airbus aircraft. Moreover, Airbus acts as a main supplier for the A400 M program which is led by the Military Transport Division.

Capital expenditures represent the additions to property, plant and equipment and to intangible assets (excluding additions to goodwill of €83 million, mainly for the acquisition of RIG Holdings Inc. with its subsidiaries Racal Instruments US and Racal Instruments Group Ltd. within the Defence & Security Systems division; for further details see Note e. – "capital expenditures".

c) EBIT pre goodwill amortization and exceptionals

EADS uses EBIT pre goodwill amortization and exceptionals as a key indicator of its economic performance. The term "exceptionals" refers to such items as amortization expenses of fair value adjustments relating to the EADS merger, the Airbus Combination and the formation of MBDA, as well as impairment charges thereon. EBIT pre goodwill amortization and exceptionals is treated by management as a key indicator to measure the segments' economic performances.

in €m	2004	2003	2002
Income from operating activities	**2,143**	**561**	**160**
Goodwill amortization and related impairment charges	0	567	936
Exceptional depreciation (fixed assets)	212	214	227
Exceptional depreciation (inventories)	5	15	16
Income from investments	84	186	87
EBIT pre goodwill amortization and exceptionals	**2,444**	**1,543**	**1,426**

In the context of the Project Airbus Conversion in Euro (PACE) and the relating Advance Pricing Agreement signed in April 2004 with tax authorities (France, UK, Germany and Spain), the Airbus GIE – a US$ denominated entity – has been merged within Airbus SAS – a Euro denominated entity – with retroactive effect as of 1st January 2004.

As a consequence, operations of former Airbus GIE are from 1st January 2004, considered as "foreign currency operations" and accounted for in accordance with accounting principles consistently adopted by EADS. Before the merger, Airbus GIE operations used to be recorded at the current exchange rate of the period except for those hedged with financial instruments. From 1st January 2004, former Airbus GIE operations are recorded on the basis of historical exchange rates.

As a result, no additional Currency Translation Adjustment (CTA) is generated from former Airbus GIE operations. The portion of outstanding CTA as at 31st December 2003, booked for balance sheet items that relate to future transactions as from 1st January 2004, is gradually released according to realization of such operations, namely aircraft deliveries.

d) Revenues by destination

in €m	2004	2003	2002
Germany	4,322	3,651	2,476
France	3,326	3,521	3,872
United Kingdom	2,653	2,121	2,452
Spain	1,253	1,000	1,309
Other European Countries	2,974	3,687	4,248
North America	8,715	8,056	10,562
Asia/Pacific	4,938	4,033	2,010
Middle East	2,286	2,873	1,258
Latin America	505	677	1,259
Other Countries	789	514	455
Consolidated	**31,761**	**30,133**	**29,901**

Revenues are allocated to geographical areas based on the location of the customer.

Most of the Group's assets are located in the European Union.

e) Capital expenditures

in €m	2004
France	986
Germany	823
United Kingdom	687
Spain	195
Other Countries	326
Capital expenditures excluding leased assets	**3,017**
Leased assets	**656**
Capital expenditures	**3,673**

6. Revenues

Revenues in 2004 reached €31,761 million compared to €30,133 million in 2003 and €29,901 million in 2002. Revenues in 2004 increased in comparison to 2003 in all divisions. Despite a lower US Dollar exchange rate compared to Euro and less favourable hedges compared to 2003, revenues increased mainly due to increased deliveries and a more favourable aircraft mix at Airbus.

Revenues are mainly comprised of sales of goods and services, as well as of revenues associated with construction contracts accounted for under the percentage-of-completion-method, contracted research and development and customer financing revenues. For a breakdown of revenues by business segment and geographical region, refer to Note 5, "Segment reporting".

Detail of **Revenues**:

in €m	2004	2003	2002
Total revenues	31,761	30,133	29,901
Thereof revenues from the delivery of goods & services	26,208	25,110	25,832
Thereof revenues from construction contracts (including contracted research and development)	4,816	4,295	3,741

The revenues from construction contracts increased in 2004 mainly in the Military Transport Aircraft division resulting from the A400M program and in the Aeronautics division resulting from the Tiger and NH90 programs partly offset by the decrease in the Space division due to the finalization of major development programs such as Ariane 5 and the M51 ballistic missile.

1.2 Financial statements (continued)

Notes to the IFRS consolidated statements of income

7. Functional costs and other expenses

Included in cost of sales and other functional costs are **Cost of materials** of €19,498 million (2003: €18,838 million, 2002: €19,216 million).

Cost of sales include the amortization expenses of fair value adjustments of fixed assets and inventories in the amount of €217 million (2003: €229 million; 2002: €243 million); these are relating to the EADS merger, the Airbus Combination and the formation of MBDA.

Selling, administrative and other expenses are comprised of:

in €m	2004	2003	2002
Selling expenses	798	776	829
Administrative expenses	1,321	1,386	1,422
Other expenses	177	256	241
Thereof losses from sales of fixed assets	14	15	5
Thereof restructuring measures	13	12	16
Total	**2,296**	**2,418**	**2,492**

Personnel expenses are:

in €m	2004	2003	2002
Wages, salaries and social contributions	7,605	7,238	7,147
Net periodic pension cost (see Note 19 b)	327	359	319
Total	**7,932**	**7,597**	**7,466**

8. Other income

in €m	2004	2003	2002
Other income	314	196	248
Thereof rental income	42	39	38
Thereof release of allowances	34	17	8
Thereof income from sales of fixed assets	20	7	89

The other income in 2004 includes the release of the provision for the VT 1 claim in the amount of €106 million (see note 24 "Litigation and Claims").

The income from sale of fixed assets included in 2002 a gain on the disposal of EADS' 50% share in Aircelle (€63 million).

9. Financial result

in €m	2004	2003	2002
Income from investments	84	186	87
Interest result	(275)	(203)	(81)
Other financial result	(55)	148	21
Total	**(246)**	**131**	**27**

The **income from investments** in 2004 is mainly derived from the result of the equity investment in Dassault Aviation of in €78 million (2003: €225 million; 2002: €111 million), in previous years partly offset by impairment of investments (in 2003: €30 million for CAC Systèmes and Hispasat; in 2002: €29 million for Arianespace Participation S.A.).

Since for the second half-year 2004 no financial information according to IFRS is available yet from Dassault Aviation, the net income of the second half year 2003 of Dassault Aviation has been used as the best estimate to report the current second half year's net income for 2004. The current year's equity investment income from Dassault Aviation also includes a negative catch up of the prior year financial performance in accordance with IFRS, which amounts to (€33) million (in 2003 a positive catch up of €77 million).

Interest result in 2004 comprises interest income of €352 million (2003: €371 million) and interest expense of (€627) million (2003: (€574) million). The 2003 gross presentation of interest income and interest expense has been restated by €85 million to be comparable with the current presentation. Included in interest income is the return on cash and cash equivalents, securities and financial assets such as loans and finance leases. Interest expense includes interest on European Government refundable advances of €245 million (2003: €218 million) and on financial liabilities. The net interest expense in 2003 increased compared to 2002 principally due to higher interest charges on European Governments refundable advances received, to an increased spread between interest received on positive balances invested in short-term liquid instruments and to interest paid on longer-term debt.

Other financial result in 2004 includes interest expenses related to taxes of (€28) million as well as the impact from the fair value measurement of embedded derivatives not used in hedging relationships in the amount of (€10) million (2003: €70 million, 2002: €26 million).

10. Income taxes

The (expense for) benefit from income taxes is comprised of the following:

in €m	2004	2003	2002
Current tax expense	(127)	(612)	(198)
Deferred tax (expense)/benefit	(537)	138	(255)
Total	**(664)**	**(474)**	**(453)**

The Group's parent company, EADS N.V., legally seated in Amsterdam, The Netherlands, applies Dutch tax law using an income tax rate of 34.5% for 31st December 2004, 2003 and 2002. In December 2004, a new tax law was enacted reducing the income tax rates in 2005 to 31.5%, in 2006 to 30.5% and from 2007 onwards to 30.0%. Accordingly, deferred tax assets and liabilities for the Group's Dutch entities were calculated using the respective enacted rates. All foreign subsidiaries however apply their national tax rates, among others Great Britain 30% and Spain 35%.

In France, the corporate tax rate in effect for 2004, 2003 and 2002 was 33$^1/_3$% plus surcharges of 3% ("contribution additionelle") and 3.3% ("contribution sociale"). In 2004, the French Finance Law (FFL) for 2005 was enacted resulting in a reduction of the "contribution additionelle" to 1.5% in 2005 and nil for 2006 onwards. Accordingly, deferred tax assets and liabilities for the Group's French subsidiaries were calculated at 31st December 2004 using the enacted tax rate of 34.93% for temporary differences that reverse in 2005 and 34.43% for temporary differences with a reversal scheduled later than 2005 (35.43% at 31st December 2003 and 2002).

For the Group's German subsidiaries, income taxes are calculated using a federal corporate tax rate of 25.0% for 31st December 2004, plus (i) an annual solidarity surcharge of 5.5% on the amount of federal corporate taxes payable and (ii) the after federal tax benefit rate for trade tax of 12.125% for 2004. In aggregate, the tax rate applied to German income taxes amounts to 38.5% in 2004 (40.0% at 31st December 2003 and 38.5% at 31st December 2002).

The following table shows a reconciliation from the theoretical income tax expense – using the Dutch corporate tax rate of 34.5% as at 31st December 2004, at 31st December 2003 and at 31st December 2002 – to the reported tax expense. The reconciling items represent, besides the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported financial statements according to IFRS rules.

in €m	2004	2004 in % of "Profit before income taxes and minority interests"	2003	2002
Profit before income taxes and minority interests	1,897		692	187
Corporate income tax rate	34.5 %		34.5 %	34.5 %
Expected (expense) for income taxes	(654)	34.5 %	(239)	(65)
Effects from tax rate differentials and changes	(36)	1.9 %	(26)	(35)
Goodwill amortization and impairments	3	(0.2)%	(191)	(321)
Change in valuation allowances	(11)	0.6 %	(119)	(11)
Tax credit for R&D expenses	80	(4.2)%	69	53
Results on associates (at equity)	22	(1.2)%	76	28
Tax effect on investments	4	(0.2)%	(35)	(39)
Other	(72)	3.8 %	(9)	(63)
Reported tax expense	(664)	35.0 %	(474)	(453)

1.2 Financial statements (continued)

Notes to the IFRS consolidated statements of income

Deferred income taxes are the result of temporary differences between the carrying amounts of certain assets and liabilities in the financial statements and their tax bases. Future tax impacts from net operating losses and tax credit carry forwards are also considered in the deferred income tax calculation. Deferred income taxes are related to the following assets and liabilities:

in €m	Deferred tax assets 2004	Deferred tax assets 2003	Deferred tax liabilities 2004	Deferred tax liabilities 2003	Net 31st December 2004	Net 31st December 2003
Intangible assets	8	23	(97)	(37)	(89)	(14)
Property, plant and equipment	37	7	(1,087)	(1,108)	(1,050)	(1,101)
Investments and long-term financial assets	33	25	(149)	(145)	(116)	(120)
Inventories	357	287	(191)	(273)	166	14
Receivables and other current assets	58	666	(3,557)	(3,159)	(3,499)	(2,493)
Prepaid expenses	1	8	(26)	(45)	(25)	(37)
Retirement plans	700	674	0	0	700	674
Other provisions	607	729	(41)	(82)	566	647
Liabilities	821	1,230	(305)	(505)	516	725
Deferred income	579	698	(29)	(21)	550	677
Net operating loss and tax credit carry forwards	1,260	817	–	–	1,260	817
Deferred tax assets/(liabilities) before netting	**4,461**	**5,164**	**(5,482)**	**(5,375)**	**(1,021)**	**(211)**
Valuation allowances on deferred tax assets	(570)	(729)	–	–	(570)	(729)
Set-off	(1,348)	(1,711)	1,348	1,711	–	–
Net Deferred tax assets/(liabilities)	**2,543**	**2,724**	**(4,134)**	**(3,664)**	**(1,591)**	**(940)**
Thereof less than one year	858	1,237	(1,379)	(955)	(521)	282
Thereof more than one year	1,685	1,487	(2,755)	(2,709)	(1,070)	(1,222)

The amount of the Group's deferred tax assets' allowances is based upon management's estimate of the level of deferred tax assets that will be realized in the future. In future periods, depending upon the Group's financial results, management's estimate of the amount of the deferred tax assets considered realizable may change, and hence the write down of deferred tax assets may increase or decrease.

Deferred taxes on Net Operating Losses and Tax Credit carry forwards:

in €m	France	Germany	Spain	UK	Other countries	31st December 2004	31st December 2003
Net Operating Losses (NOL)	816	966	27	1,237	171	**3,217**	**1,974**
Capital losses						**0**	**18**
Trade tax loss carry forwards		871				**871**	**706**
Tax credit carry forwards			181		5	**186**	**131**
Tax effect	**281**	**363**	**190**	**371**	**55**	**1,260**	**817**
Valuation allowances						**(349)**	**(357)**
Deferred tax assets on NOL's and tax credit carry forwards						**911**	**460**

NOL's, capital losses and trade tax loss carry forwards are indefinite in France, Germany and in Great Britain. In Spain NOL's and tax credit carry forwards expire after 15 years. The first tranche of tax credit carry forwards (€4 million) will expire in 2014.

Roll forward of deferred taxes:

in €m	2004	2003
Net deferred tax asset/(liability) beginning of the year	**(940)**	**978**
Deferred tax income (expense) in income statement	(537)	138
Deferred tax recognized directly in AOCI (IAS 39)	(300)	(1,762)
Others	186	(294)
Net deferred tax (liability) at year end	**(1,591)**	**(940)**

The deferred tax recognized directly in AOCI is as follows:

in €m	2004	2003
Available-for-sale investments	4	5
Cash flow hedges	(3,109)	(2,810)
Total	**(3,105)**	**(2,805)**

1.2 Financial statements (continued)

Notes to the IFRS consolidated balance sheets

11. Intangible assets

A schedule detailing gross values, accumulated depreciation and net values of intangible assets is as follows:

Cost in €m	Balance at 31st December 2003	Elimination of accumulated amortization	Adjusted balance at 1st January 2004	Exchange differences	Additions	Changes in consolida-tion scope	Reclassifi-cation	Disposals	Balance at 31st December 2004
Goodwill	12,710	(2,198)	10,512	(1)	83	13	0	0	10,607
Other intangible assets	650	0	650	(2)	364	6	6	(15)	1,009
Total	**13,360**	**(2,198)**	**11,162**	**(3)**	**447**	**19**	**6**	**(15)**	**11,616**

Amortization/Impairment in €m	Balance at 31st December 2003	Elimination of accumulated amortization	Adjusted balance at 1st January 2004	Exchange differences	Additions	Changes in consolida-tion scope	Reclassifi-cation	Disposals	Balance at 31st December 2004
Goodwill	(3,338)	2,198	(1,140)	(2)	0	(5)	0	0	(1,147)
Other intangible assets	(328)	0	(328)	0	(137)	(1)	(3)	8	(461)
Total	**(3,666)**	**2,198**	**(1,468)**	**(2)**	**(137)**	**(6)**	**(3)**	**8**	**(1,608)**

Net book value in €m	Balance at 31st December 2003	Elimination of accumulated amortization	Adjusted balance at 1st January 2004	Exchange differences	Additions	Changes in consolida-tion scope	Reclassifi-cation	Disposals	Balance at 31st December 2004
Goodwill	9,372	0	9,372	(3)	83	8	0	0	9,460
Other intangible assets	322	0	322	(2)	227	5	3	(7)	548
Total	**9,694**	**0**	**9,694**	**(5)**	**310**	**13**	**3**	**(7)**	**10,008**

Additions to goodwill in 2004 mainly result from the acquisition of RIG Holdings Inc. with its subsidiaries Racal Instruments US and Racal Instruments Group Ltd. (+€76 million).

As EADS decided to early adopt IFRS 3 as of 1st January 2004, the carrying amount of the accumulated amortization of Goodwill was eliminated, with a corresponding decrease in Goodwill. As at 31st December 2004 the accumulated impairments amount to €1,147 million.

Goodwill impairment tests

Similar to previous periods, EADS performed impairment tests on level of Cash Generating Units (on segment level or one level below). The goodwill is tested annually for impairment in the fourth quarter of the financial year by using cash flow projections based on current operative planning covering normally a three-year period. These current forecasts are based on past experience as well as on future expected market developments.

As of 31st December 2004 and 2003, goodwill was allocated to Cash Generating Units, which is summarized in the following schedule on segment level:

in €m	Airbus	Military Transport Aircraft	Aero-nautics	Defence & Security Systems	Space	HQ/ Conso.	Conso-lidated
Goodwill as of 31st December 2004	6,342	12	111	2,407	559	29	9,460
Goodwill as of 31st December 2003	6,342	0	111	2,321	545	53	9,372
Deviation	0	12	0	86	14	(24)	88

The current operative planning takes into account general economic data derived from external macroeconomic and financial studies. The operative planning assumptions reflect for the periods under review specific inflation rates and future labour expenses in the European Countries where the major production facilities are located. Regarding the expected future labour expenses an increase on average of 3% was implied. In addition, future interest rates are projected for the European Monetary Union, Great Britain and the U.S.A.

The assumption for the growth rate used to calculate the terminal value in general amounts to 2%. Airbus is using for new programs specific business assumptions. Based on these current forecasts and projections of future pre-tax cash-flows the value in use of Cash Generating Units is computed by applying pre-tax discount rates in the range of 12.5% to 14.0%.

Airbus operates in a cyclical market, nevertheless signs of recovery have been appearing since 2003. To face growing demand and based on an order backlog of 1,500 aircraft, Airbus has planned for a production ramp up program to prepare for a production rate of up to 30 single aisle and up to 8 long range aircraft per month. Airbus future profits should be mainly affected by the expected growth, the exchange rate assumptions, the hedge book (details see below) and the cost saving program Route 06. Altogether, this is expected to trigger EBIT improvement, which should be further enhanced by the entry into service of the A380.

For the Defence & Security Systems division a moderate increase in revenues is assumed in the operative planning, based namely on the order book, expected order intake as well as the sustained level of Eurofighter deliveries based on tranche two which stabilizes the program beyond 2007. Operating margin of the overall division is expected to increase over the operative planning period thanks to the benefits from past restructuring measures and expected growth, partly offset by continuing self-financed investment in campaigns and projects such as Euromale.

The order book of the Space division as of 31st December 2004 (including satellites, launchers and ballistic missile) supports the moderate revenues increase which is assumed for this division over the operative planning period. The current development of the Skynet V satellites is weighing on EADS Space cash flow until these spacecraft are launched and operated with their full capability by 2008 to generate a ramped up level of revenues from the UK MoD. The Space restructuring program SARA successfully delivered EBIT turnaround in 2004 and is expected to lay the ground for further profits.

EADS follows an active policy of foreign exchange risk hedging. As of 31st December 2004 the total hedge portfolio with maturities up to 2011 amounts to US$40 bn and covers a major portion of the net exposure expected over the period of the operative planning (2005 to 2007). The average US$/€ hedge rate of the total hedge portfolio until 2011 amounts to 1.03 US$/€. For the determination of the operative planning, management assumed future exchange rates of 1.30 US$/€ and 0.68 GBP/€ to convert in € the portion of future US$ and GBP denominated revenues which are not hedged. Net exposure arises mostly from Airbus and to a lesser extent from Aeronautics, Space and the Defence & Security Systems divisions.

The recoverable amounts based on value in use have exceeded the carrying amounts of the Cash Generating Units under review, indicating no goodwill impairment for 2004 as it was the case for 2003.

In 2002 an impairment charge of €350 million was set up for the Cash Generating Units Satellite and Communication and Casa Space Business.

Development Costs

EADS capitalized development costs in the amount of €169 million as of 31st December 2004 (€4 million as of 31st December 2003) as internally generated intangible asset mainly for Airbus A380 program.

12. Property, plant and equipment

Schedules detailing gross values, accumulated depreciation and net values of property, plant and equipment show the following:

Cost in €m	Balance at 1st January 2004	Exchange differences	Additions	Change in consolida-tion scope	Reclassifi-cation	Disposals	Balance at 31st December 2004
Land, leasehold improvements and buildings including buildings on land owned by others	4,869	(6)	252	18	409	(46)	5,496
Technical equipment and machinery	6,141	(76)	450	8	288	(129)	6,682
Other equipment, factory and office equipment	6,214	(211)	924	4	34	(644)	6,321
Advance payments relating to plant and equipment as well as construction in progress	2,313	(15)	1,683	0	(731)	(14)	3,236
Total	**19,537**	**(308)**	**3,309**	**30**	**(0)**	**(833)**	**21,735**

1.2 Financial statements (continued)

Notes to the IFRS consolidated balance sheets

Depreciation in €m	Balance at 1st January 2004	Exchange differences	Depreciation charge	Change in consolida-tion scope	Reclassifi-cation	Disposals	Balance at 31st December 2004
Land, leasehold improvements and buildings including buildings on land owned by others	(1,739)	4	(251)	(7)	(19)	39	(1,973)
Technical equipment and machinery	(3,526)	27	(557)	(5)	8	119	(3,934)
Other equipment, factory and office equipment	(2,783)	85	(567)	(2)	12	376	(2,879)
Advance payments relating to plant and equipment as well as construction in progress	(41)	0	(2)	0	(1)	0	(44)
Total	**(8,089)**	**116**	**(1,377)**	**(14)**	**0**	**534**	**(8,830)**

Net book value in €m	Balance at 1st January 2004	Exchange differences	Additions	Change in consolida-tion scope	Reclassifi-cation	Disposals	Balance at 31st December 2004
Land, leasehold improvements and buildings including buildings on land owned by others	3,130	(2)	1	11	390	(7)	3,523
Technical equipment and machinery	2,615	(49)	(107)	3	296	(10)	2,748
Other equipment, factory and office equipment	3,431	(126)	357	2	46	(268)	3,442
Advance payments relating to plant and equipment as well as construction in progress	2,272	(15)	1,681	0	(732)	(14)	3,192
Total	**11,448**	**(192)**	**1,932**	**16**	**(0)**	**(299)**	**12,905**

The **Property, plant and equipment** include at 31st December 2004 and 2003, buildings, technical equipment and other equipment accounted for in fixed assets under finance lease agreements for net amounts of €103 million and €122 million, net of accumulated depreciation of €336 million and €317 million. The related depreciation expense for 2004 was €19 million (2003: €22 million; 2002: €23 million).

For investment property recorded under property, plant and equipment, refer to Note 29.

The item **"Other equipment, factory and office equipment"** includes the net book value of "aircraft under operating lease" for €2,743 million and €2,771 million as of 31st December 2004 and 2003, respectively; related accumulated depreciation is €1,604 million and €1,702 million. Depreciation expense for 2004 amounts to €327 million (2003: €439 million, 2002: €263 million).

The "aircraft under operating lease" include:

(i) Group's sales finance activity in the form of aircraft which have been leased out to customers and are classified as operating leases: They are reported net of the accumulated impairments. These sales financing transactions are generally secured by the underlying aircraft used as collateral. (See Note 25, "Commitments and contingencies" for details on sales financing transactions).

The corresponding non-cancellable future operating lease payments (not discounted) due from customers to be included in revenues, at 31st December 2004 are as follows:

in €m	
not later than 2005	156
later than 2005 and not later than 2009	372
later than 2009	219
Total	**747**

(ii) Aircraft which have been accounted as "operating lease" because they were sold under terms that include asset value guarantee commitments with the present value of the guarantee being more than 10% of the aircraft's sales price (assumed to be the fair value). Upon the initial sale of these aircraft to the customer, their total cost previously recognized in inventory is transferred to "Other equipment, factory and office equipment" and depreciated over its estimated useful economic life, with the proceeds received from the customer being recorded as deferred income (see Note 22, "Deferred income").

The total net book values of aircraft under operating lease is as follows:

in €m	31st December 2004	31st December 2003
(i) Net book value of aircraft under operating lease before impairment charge	1,981	1,856
Accumulated impairment	(532)	(590)
Net book value of aircraft under operating lease	1,449	1,266
(ii) Aircraft under operating lease with the present value of the guarantee being more than 10%	1,294	1,505
Total Net Book value of aircraft under operating leases	**2,743**	**2,771**

13. Investments in associates, other investments and long-term financial assets

The following table sets forth the composition of investments in associates, other investments and long-term financial assets:

in €m	31st December 2004	31st December 2003
Investments in associates	1,738	1,640
Other investments	459	560
Other financial assets	1,893	1,929
Thereof loans from aircraft financing	635	812
Thereof finance lease receivables from aircraft financing	965	898
Others	293	219
Total	**4,090**	**4,129**

Investments in associates are accounted for using the equity method. As of 31st December 2004 and 2003, investments in associates contain EADS' interest in Dassault Aviation (46.22% at 31st December 2004 and 46.03% as at 31st December 2003) of €1,705 million and €1,633 million. Since for the second half-year 2004 no financial information according to IFRS is available yet from Dassault Aviation, the net income of the second half-year 2003 of Dassault Aviation according to IFRS has been used as the best estimate to report the current second half year's net income. The current year's equity investment from Dassault Aviation also includes a negative catch up of the prior year equity according to IFRS in the amount of (€33) million (in 2003 a positive catch-up of €77 million), which relates to income from investments (see Note 9, "Financial result") and in addition €38 million (in 2003: €69 million) recognized in AOCI.

A list of major investments in associates and the proportion of ownership is included in Appendix "Information on principal investments".

Other investments comprise EADS' investment in various non-consolidated entities, the most significant being at 31st December 2004, investments in Embraer of €72 million (2003: €86 million) and in Patria of €50 million (2003: €42 million).

Other financial assets encompass mainly the Group's sales finance activities in the form of finance lease receivables and loans from aircraft financing. They are reported net of accumulated impairments. These sales financing transactions are generally secured by the underlying aircraft used as collateral. (See Note 25, "Commitments and contingencies" for details on sales financing transactions).

Loans from aircraft financing are provided to customers to finance the sale of aircraft. These loans are long-term and normally have a maturity which is linked to the use of the aircraft by the customer. The calculation of the net book value is:

in €m	31st December 2004	31st December 2003
Outstanding gross amount of loans to customers	946	1,080
Accumulated impairment	(311)	(268)
Total net book value of loans	**635**	**812**

Finance lease receivables from aircraft financing are as follows:

in €m	31st December 2004	31st December 2003
Minimum lease payments receivables	1,299	1,262
Unearned finance income	(179)	(201)
Accumulated impairment	(155)	(163)
Total net book value of finance lease receivables	**965**	**898**

1.2 Financial statements (continued)

Notes to the IFRS consolidated balance sheets

Future minimum lease payments from investments in finance leases to be received are as follows (not discounted):

in €m	
not later than 2005	177
later than 2005 and not later than 2009	358
later than 2009	764
Total	**1,299**

Other financial assets include €293 million and €219 million of other loans as of 31st December 2004 and 2003, e.g. loans to employees.

Defeased bank deposits of €1,089 million and €1,131 million as of 31st December 2004 and 2003, respectively have been offset against financial liabilities (see Note 2: "Summary of significant accounting policies").

14. Inventories, net of advances received

Inventories, net of advances received at 31st December 2004 and 2003 consist of the following:

in €m	31st December 2004	31st December 2003
Raw materials and manufacturing supplies	987	938
Work in progress	8,505	8,088
Finished goods, parts and products held for resale accounted for at lower of cost and net realizable value	1,039	1,804
Advance payments to suppliers	1,803	1,799
	12,334	**12,629**
Less: Advance payments received	(9,259)	(9,350)
Total	**3,075**	**3,279**

The increase in work in progress of €417 million was mainly driven by Airbus. Finished goods, parts and products held for resale decreased by €765 million, reflecting Airbus higher delivery rate, compared to its production rate.

The at cost value of finished goods, parts and products held for resale amounts to €1,354 million in 2004 (2003: €2,158 million).

The advance payments received are composed of advance payments for construction, delivery and service contracts.

15. Trade receivables

Trade receivables at 31st December 2004 and 2003 consist of the following:

in €m	31st December 2004	31st December 2003
Receivables from sales of goods and services	4,784	4,335
Allowance for doubtful accounts	(378)	(334)
Total	**4,406**	**4,001**

Trade receivables are classified as current assets. As of 31st December 2004 and 2003, respectively, €77 million and €223 million of trade receivables are not expected to be collected within one year.

In application of the percentage of completion method, as of 31st December 2004 an amount of €1,313 million (in 2003: €972 million) for construction contracts is included in the trade receivables net of advance payments received.

16. Other receivables and other assets

Other receivables and other assets at 31st December 2004 and 2003 consist of the following:

in €m	31st December 2004	31st December 2003
Receivables from affiliated companies	121	171
Receivables from related companies	333	479
Positive fair values of derivative financial instruments	8,948	7,964
Capitalized settlement payments to German Government	287	315
Value Added Tax claims	462	386
Income tax claims	303	332
Others	651	633
Total	**11,105**	**10,280**

The capitalized settlement payments to the German Government are attributable to refundable advances which are amortized through the income statement (in cost of sales) at the delivery pace of the corresponding aircraft.

The residual amount in other receivables and other assets as of 31st December 2004 and 2003 (€651 million and €633 million, respectively) includes positive market value of embedded derivatives within purchase contracts in the amount of €86 million and €96 million, respectively.

Other receivables and other assets, which are expected to be collected within one year, amount to €4,583 million as of 31st December 2004 (€4,664 million as of 31st December 2003) and are classified as current assets.

17. Securities

The Group's security portfolio amounts to €466 million and €468 million as of 31st December 2004 and 2003, respectively. It includes only debt securities classified as "Available-for-Sale".

18. Shareholders' equity

The change of shareholders' equity is provided in the Consolidated Statements of Changes in Shareholders' Equity.

The following table shows the development of the number of shares outstanding:

in €m	2004	2003
Issued as at 1st January	**812,885,182**	**811,198,500**
Issued for ESOP	2,017,822	1,686,682
Issued for exercised options	362,747	0
Cancelled	(5,686,682)	0
Issued as at 31st December	**809,579,069**	**812,885,182**
Treasury shares as at 31st December	(10,028,775)	(11,927,934)
Outstanding as at 31st December	**799,550,294**	**800,957,248**

EADS' shares are exclusively ordinary shares with a par value of €1.00. The authorized share capital consists of 3,000,000,000 shares. In connection with the 2004 Employee Stock Ownership Plan (see Note 27, "Stock-based compensation"), EADS issued 2,017,822 shares (in 2003: 1,686,682), representing a nominal value of €2,017,822 (in 2003: €1,686,682).

The Shareholders' General Meeting of EADS held on 6th May 2003, renewed the authorization given to the Board of Directors by the Annual General Meeting of 17th May 2002, to repurchase shares of the Company within the limit of 5% of the Company's issued share capital. As of 10th October 2003, the Group's Board of Directors decided to set up and implement plans for the repurchase of up to 2,027,996 shares within the limits approved by the Shareholders' General Meeting of EADS.

On 6th May 2004, the Shareholders' General Meeting of EADS renewed the authorization given to the Board of Directors to repurchase shares of the Company as long as, upon such repurchase, the Company will not hold more than 5% of the Company's issued share capital. The Group's Board of Directors decided on 8th October 2004, to set up and implement plans for the repurchase of up to 4,909,000 shares.

Furthermore, the Shareholders' General Meeting authorized both the Board of Directors and the Chief Executive Officers, with power of substitution, to cancel up to a maximum of 5,727,515 shares. On 20th July 2004, the Chief Executive Officers decided to cancel 5,686,682 treasury shares.

In total EADS purchased in 2004 3,787,523 (in 2003: 1,686,682) of its own shares and cancelled 5,686,682 shares, resulting in an amount of 10,028,775 treasury shares at 31st December 2004 (in 2003: 11,927,934).

On 6th May 2004, the Shareholders' General Meeting also decided to pay a cash distribution related to the fiscal year 2003 for a gross amount of €0.40 per share, which was paid on 4th June 2004.

Capital stock comprises the nominal amount of shares outstanding. The addition to capital stock represents the contribution of €2,017,822 (in 2003: €1,686,682) by employees under the 2004 Employee Stock Ownership Plan and for exercised options of €362,747 (in 2003: €0) in compliance with the implemented stock option plans.

Reserves contain capital reserves, retained earnings as well as the net result for the period. Accumulated other comprehensive income consists of all amounts recognized directly in equity resulting from changes in fair value of financial instruments that are classified as available-for-sale or that form part of hedging relationships in effective cash-flow hedges as well as from currency translation adjustments of foreign entities. Treasury shares represent the amount paid for own shares held in treasury.

19. Provisions

Provisions are comprised of the following:

in €m	31st December 2004	31st December 2003
Provision for retirement plans (see Note 19 b)	3,876	3,718
Provision for deferred compensation (see Note 19 a)	71	54
Retirement plans and similar obligations	**3,947**	**3,772**
Financial instruments (see Note 19 c)	181	100
Other provisions (see Note 19 d)	4,445	4,854
Total	**8,573**	**8,726**

1.2 Financial statements (continued)

Notes to the IFRS consolidated balance sheets

As of 31st December 2004 and 2003, respectively, €3,680 million and €3,533 million of retirement plans and similar obligations, €137 million and €1 million of financial instruments as well as €2,813 million and €2,844 million of other provisions mature after more than one year.

a) Provisions for deferred compensation

This amount represents obligations that arise if employees elect to convert all or part of their variable remuneration or bonus into an equivalent commitment for deferred compensation. Unlike retirement plans, deferred compensation is paid out in a lump sum upon the employee's retirement.

b) Provisions for retirement plans

When Group employees retire, they receive indemnities as stipulated in retirement agreements, in accordance with regulations and practices of the countries in which the Group operates.

French law stipulates that employees are paid retirement indemnities on the basis of the length of service.

In Germany, EADS introduced a new pension plan (P3) for non executive employees in 2004. Under the new plan, the employer makes contributions during the service period, which are dependent on salary in the years of contribution and years of service. These contributions are converted into components which become part of the accrued pension liability at the end of the year. Accrued benefits under the old plan are considered through an initial component. Total benefits are calculated as a career average over the entire period of service. On an overall basis, the application of the new plan had no significant effect on pension expense for 2004. Certain employees that are not covered by the new plan receive retirement indemnities based on salary earned in the last year or on an average of the last three years of employment. For executive employees, benefits are depending on final salary at the date of retirement and the time period as executive.

Actuarial assessments are regularly made to determine the amount of the Group's commitments with regard to retirement indemnities. This assessment includes an assumption concerning changes in salaries, retirement ages and long-term interest rates. It comprises all the expenses the Group will be required to pay to meet these commitments.

The weighted-average assumptions used in calculating the actuarial values of the retirement plans are as follows:

in %	31st December 2004	31st December 2003	31st December 2002
Assumptions			
Discount rate	4.75-5.0	5.0-5.25	5.0-5.75
Rate of compensation increase	3.0	3.0	3.0
Inflation rate	1.5-2.0	1.25-2.0	1.75
Expected return on plan assets	6.5	6.5	6.5

Actuarial gains and losses of the current year are not recognized in profit/loss but added to the balance of unrecognized net actuarial gain or loss. If the accumulated amount of unrecognized net gains and losses as of the beginning of the year exceeds the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets of each respective legal entity, the excess is amortized through profit and loss on a straight line basis over the average remaining working lives of the employees participating in each plan.

The amount recorded as provision on the balance sheet can be derived as follows:

in €m	2004	2003	2002
Change in defined benefit obligations			
Defined benefit obligations at beginning of year	**4,735**	**4,287**	**3,880**
Service cost	125	122	124
Interest cost	243	241	229
Plan amendments	0	14	0
Plan curtailments and settlements	(4)	0	0
Actuarial losses	281	9	201
Acquisitions and other	3	237	8
Benefits paid	(185)	(175)	(155)
Defined benefit obligations at end of year	**5,198**	**4,735**	**4,287**

in €m	2004	2003	2002
Change in plan assets			
Fair value of plan assets at beginning of year	**619**	**532**	**571**
Actual return on plan assets	52	27	(35)
Contributions	45	16	42
Acquisitions and other	0	92	0
Benefits paid	(58)	(48)	(46)
Fair value of plan assets at end of year	**658**	**619**	**532**

Based on past experience, EADS expects a return rate for plan assets of 6.5%.

in €m	31st December 2004	31st December 2003	31st December 2002
Funded status[1]	4,540	4,116	3,755
Unrecognized actuarial net (losses)	(659)	(384)	(398)
Unrecognized past service cost	(5)	(14)	0
Net amount recognized as provision	**3,876**	**3,718**	**3,357**

1 Difference between the defined benefit obligations and the fair value of plan assets at the end of the year.

The defined benefit obligation at the end of the year is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. The increase in the unrecognized actuarial losses results mainly from the decrease in the discount rate for pension obligations in Germany from 5.25% to 4.75%, partially offset by the increase in the assumed inflation rate for Germany from 1.25% to 1.5%.

The fair value of plan assets at end of the year comprises assets held by long-term employee benefit funds that exist solely to pay or fund employee benefits. Plan assets are not entirely exposed to fluctuations of stock markets, as the major portion of plan assets is invested in fixed income instruments.

The net amount of €3,876 million (2003: €3,718 million) represents the amount recorded as provision on the balance sheet. The provision contains the funded status, adjusted by actuarial net gains/losses which do not have to be recognized because they do not meet the recognition criteria. Net actuarial gains and losses include both actuarial gains/losses on the defined benefit obligation and the difference between the actual and expected return on plan assets.

The components of the net periodic pension cost, included in "Income from operating activities", are as follows:

in €m	2004	2003	2002
Service cost	125	122	124
Interest cost	243	241	229
Expected return on plan assets	(41)	(33)	(42)
Net actuarial loss	0	29	8
Net periodic pension cost	**327**	**359**	**319**

The following table sets forth the development of the provision for pension obligations:

in €m	2004	2003
Change in provision for pension obligations in 2004		
Provision for pension obligations at beginning of year	3,718	3,357
Net periodic pension cost	327	359
Contributions	(45)	(16)
Consumption (benefits paid)	(127)	(127)
Acquisitions and other	3	145
Provision for pension obligations at end of year	**3,876**	**3,718**

c) Financial instruments

The provision for financial instruments amounts to €181 million as of 31st December 2004 (€100 million as of 31st December 2003) and includes the negative fair market value of synthetic foreign currency forwards and interest rate swaps (see Note 26 (c), "Fair value of financial instruments").

1.2 Financial statements (continued)

Notes to the IFRS consolidated balance sheets

d) Other provisions

Movements in provisions during the year were as follows:

in €m	Balance at 1st January 2004	Exchange differences	Additions	Reclassification/ Change in consolidated group	Used	Released	Balance at 31st December 2004
Aircraft financial risks	1,021	(2)	97	(1)	(124)	(52)	939
Outstanding costs	883	0	408	(48)	(308)	(74)	861
Contract losses	439	1	91	(34)	(96)	(36)	365
Tax provisions	339	0	47	0	(166)	(18)	202
Warranties	160	0	69	1	(51)	(21)	158
Litigations and claims	220	0	97	0	(3)	(112)	202
Personnel charges	365	0	278	0	(148)	(17)	478
Restructuring measures	445	0	83	(2)	(232)	(23)	271
Obligation from services and maintenance agreements	189	0	81	0	(14)	(1)	255
Other risks and charges	793	(5)	208	(6)	(195)	(81)	714
Total	**4,854**	**(6)**	**1,459**	**(90)**	**(1,337)**	**(435)**	**4,445**

The provision for aircraft financial risks fully covers, in line with the Group's policy for sales financing risk, the net exposure to aircraft financing of €466 million (€583 million at 31st December 2003) and asset value risks of €473 million (€438 million at 31st December 2003) related to Airbus and ATR (see Note 25 "Commitments and contingencies").

The use of the provision for restructuring measures mainly relates to the Space division.

The provision for litigations and claims covers various legal actions, governmental investigations, proceedings and other claims, which are pending or may be instituted or asserted in the future against the Group.

The main release under "Litigations and Claims" relates to the settlement of the VT 1 claim (€106 million).

"Reclassification/Change in consolidated group" mainly comprises reclassifications to trade liabilities.

20. Financial liabilities

In 2004, the EIB (European Investment Bank) granted a long-term loan to EADS in the amount of €309 million bearing a fixed interest rate of 5.1%. Included in financial liabilities are €546 million which were drawn under a long-term bank facility for the funding of Skynet V with an interest of 3 M-Libor, swapped into a fixed interest rate of 4.8%. EADS raised in 2003 €1.5 bn through two Eurobond issues under its EMTN (Euro Medium Term Note) program. The first issue of €1 bn carries a coupon of 4.625% which was swapped into variable rate of 3 M-Euribor + 1.02% and subsequently capped to 4%. The second issue of €0,5 bn maturing in 2018 carries a coupon of 5.5%.

1.2 Financial statements (continued)

Notes to the IFRS consolidated balance sheets

in €m	31st December 2004	31st December 2003
Bonds	23	21
Liabilities to financial institutions	145	314
Liabilities to affiliated companies	110	90
Loans	45	84
Liabilities from finance leases	52	82
Others	345	387
Short-term financial liabilities (due within one year)	**720**	**978**
Bonds *thereof due in more than five years: 1,511 (31st December 2003: 1,598)*	1,648	1,640
Liabilities to financial institutions *thereof due in more than five years: 1,369 (31st December 2003: 570)*	1,629	1,075
Liabilities to affiliated companies *thereof due in more than five years: 0 (31st December 2003: 3)*	0	6
Loans *thereof due in more than five years: 672 (31st December 2003: 541)*	911	799
Liabilities from finance leases *thereof due in more than five years: 46 (31st December 2003: 47)*	218	269
Long-term financial liabilities	**4,406**	**3,789**
Total	**5,126**	**4,767**

Included in "Others" are financial liabilities against joint venture partners.

Non recourse Airbus financial liabilities (risk is supported by external parties) amounts to €988 million (€679 million in 2003).

Defeased bank deposits for aircraft financing of €1,089 million and €1,131 million as of 31st December 2004 and 2003 respectively have been offset against financial liabilities.

The aggregate amounts of financial liabilities maturing during the next five years and thereafter are as follows:

in €m	Financial liabilities
2005	720
2006	326
2007	142
2008	175
2009	165
Thereafter	3,598
Total	**5,126**

21. Trade and other liabilities

in €m	31st December 2004	31st December 2003
Trade liabilities	5,860	5,117
Other liabilities	13,240	11,318
Thereof customer advance payments	5,610	3,807
Thereof European Governments refundable advances	5,119	4,851
Thereof tax liabilities including wage tax	612	833
Thereof liabilities to affiliated companies	35	50
Thereof liabilities to related companies	74	31
others	1,790	1,746
Total	**19,100**	**16,435**

The increase in European Governments refundable advances relates mostly to accrued interest. Regarding the interest expense on European Governments refundable advances see Note 9, "Financial result". Due to their specific nature, namely their risk-sharing features and the fact that such advances are generally granted to EADS on the basis of significant development projects, European Government refundable advances are accounted for by EADS within "Other Liabilities" on the balance sheet including accrued interest.

Maturities – Out of trade liabilities as of 31st December 2004, €155 million (€46 million as of 31st December 2003) mature after more than one year. Included in "Other liabilities" are €5,082 million (€4,135 million as of 31st December 2003) due within one year and €3,918 million (€4,264 million as of 31st December 2003) maturing after more than five years.

22. Deferred income

The main part of deferred income is related to sales of Airbus and ATR aircraft that include asset value guarantee commitments and that are accounted for as operating leases (€1,567 million and €2,009 million as of 31st December 2004 and 2003, respectively). The decrease results mainly from Airbus renegotiation of residual value guarantees, resulting to revenue recognition in the amount of €298 million.

1.2 Financial statements (continued)

Notes to the IFRS consolidated statements of cash-flows

23. Consolidated Statement of Cash Flows

As of 31st December 2004, EADS' cash position (stated as cash and cash equivalents in the Consolidated Statement of Cash-Flows) includes €687 million (€273 million, €227 million as of 31st December 2003 and 2002) representing the amount Airbus has deposited at BAES. Additionally included are €602 million, €613 million and €596 million as of 31st December 2004, 2003 and 2002, respectively, which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAES and Finmeccanica and are available upon demand.

For the 31st December 2002 Consolidated Balance Sheet's and the 2002 Consolidated Statement of Cash-Flow's presentation, EADS considered as part of the cash position (being cash and cash equivalents and certain qualifying securities), inter alia, an amount of €160 million related to Astrium. Due to the proportionate consolidation method for Astrium, this amount corresponds to cash advances made to Astrium for which EADS could claim the reimbursement from BAES, in accordance with the Astrium shareholders' agreement.

The change in financial liabilities in 2004 results from additions to financial liabilities in the amount of €1,302 million and repayments of €(828) million.

The following charts provide details on acquisitions (resulting in additional assets and liabilities acquired) and disposals of subsidiaries and business units:

in €m	31st December 2004	31st December 2003
Total (purchase)/selling price, net	(108)	32
thereof (paid in)/received by cash and cash equivalents	(108)	32
Cash and cash equivalents included in the acquired/(disposed) subsidiaries or other business units, net	8	(3)
Cash Flow from net (acquisitions)/disposals, net of cash	**(100)**	**29**

Included in the aggregate net purchase price in 2004 of €(100) million is mainly the acquisition of RIG Holding Inc. with its subsidiaries Racal Instruments US and Racal Instruments Group Ltd.

in €m	31st December 2004	31st December 2003
Property, plant and equipment	(2)	62
Financial assets	6	5
Inventories, net of advances received	11	115
Trade receivables	5	126
Cash and cash equivalents	8	3
Assets	**28**	**311**
Provisions	(4)	(235)
Trade liabilities	2	(143)
Financial liabilities	(2)	(109)
Others	1	(14)
Liabilities	**(3)**	**(501)**
Fair value of net assets	**25**	**(190)**
Goodwill arising on acquisitions	83	164
Less own cash and cash equivalents of (purchased)/sold subsidiaries	(8)	(3)
Cash Flow from net acquisitions/(disposals), net of cash	**100**	**(29)**

The line "Results on disposal of fixed assets/businesses and result of associates (equity method)" in the Consolidated Statement of cash Flows includes the result of associated companies (€88 million, €246 million and €134 million in 2004, 2003 and 2002, respectively).

In 2003 there have been additional cash investments in the following already fully consolidated subsidiaries; Dornier GmbH €(62) million, Aeronautica Industrial €(12) million, EADS Telecom France €(10) million and Gesellschaft für Flugzieldarstellung €(7) million.

24. Litigation and claims

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.

In its defence against an arbitration proceeding initiated by Thales, EADS (more specifically Euromissile GIE) was awarded at the end of 2002 damages on the basis of its counterclaim, the principal amount of which totals €108 million. In this context, damages were paid to Euromissile on 17th February 2003 and Thales filed an appeal for annulment of the arbitration decision. On 18th November 2004 the Paris Court of Appeal upheld the arbitration award. Since this decision has not been appealed to the French Supreme Court, this litigation is now closed. Consequently, the relating provision was released in 2004.

DaimlerChrysler has become a party to judicial and arbitration proceedings with one of the Dornier family shareholders, a minority shareholder of Dornier GmbH, an indirect subsidiary of EADS. These proceedings concern claims on alleged acquisition rights for a price below market value regarding a part of Dornier GmbH's real estate in Oberpfaffenhofen and could have an economic effect on Dornier GmbH.

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.

EADS is not aware of any other exceptional items or pending or threatened legal or arbitration proceedings that may have, or may have had in a recent period, a material adverse effect on the financial position, the activities or the results of its group taken as a whole, except as stated above.

EADS recognizes 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 Note 19 (d): "Other provisions".

25. Commitments and contingencies

Commitments and contingent liabilities

Sales financing – In relation to its Airbus and ATR activities, EADS is committing itself in sales financing transactions with selected customers. Sales financing transactions are generally collateralized by the underlying aircraft. Additionally, Airbus and ATR benefit from protective covenants and from security packages tailored according to the perceived risk and the legal environment. EADS believes that the estimated fair value of the aircraft securing such commitments will substantially offset any potential losses from the commitments. Any remaining difference between the amount of financing commitments given and the collateral value of the aircraft financed is provided for as an impairment to the relating asset, if assignable, or as a provision for aircraft financial risk. The basis for this write-down is a risk-pricing-model, which is applied at every closing to closely monitor the remaining value of the aircraft.

Depending on which party assumes the risks and rewards of ownership of a financed aircraft, the assets relating to sales financing are accounted for **on the balance sheet** either as (i) an operating lease (see Note 12, "Property, plant and equipment") or (ii) a loan from aircraft financing or (iii) a finance lease receivable (see Note 13, "Investments in associates, other investments and long-term financial assets") or (iv) in inventory. As of 31st December 2004, related accumulated impairment amounts to €532 million (2003: €590 million) for operating lease and €466 million (2003: €431 million) for loans and finance lease. €33 million (2003: €38 million) are recorded as part of provisions for aircraft financial risks (see Note 19 (d), "Other provisions").

Certain sales financing transactions include the sale and lease back of the aircraft with a third party lessor under operating lease. Unless the Group has sold down the relating operating lease commitments to third parties, which assume liability for the payments, it is exposed to future lease payments. Future nominal **operating lease payments** that result from aircraft sales financing transactions are recorded **off balance sheet** and are scheduled to be paid as follows:

in €m	
not later than 2005	170
later than 2005 and not later than 2009	724
later than 2009	935
Total	**1,829**
Of which commitments where the transaction has been sold to third parties	(1,124)
Total aircraft lease commitments where EADS bears the risk (not discounted)	**705**

1.2 Financial statements (continued)

Other notes to the IFRS consolidated financial statements

Total aircraft lease commitments of €1,829 million as of 31st December 2004, arise from aircraft head-leases and are typically backed by corresponding sublease income from customers with an amount of €1,378 million. A large part of these lease commitments (€1,124 million as of 31 st December 2004) arises from transactions that were sold down to third parties, which assume liability for the payments. EADS determines its gross exposure to such operating leases as the present value of the related payment streams. The difference between gross exposure and the estimated value of underlying aircraft used as collateral, the net exposure, is provided for in full with an amount of €433 million as of 31st December 2004, as part of the provision for aircraft financial risk (see Note 19d, "Other provisions").

As of 31st December 2004 and 2003, the total consolidated – **on and off balance sheet** – Commercial Aviation Sales Financing Exposure is as follows (Airbus 100% and ATR 50%):

in €m	31st December 2004	31st December 2003
Total gross exposure	3,681	4,225
Estimated fair value of collateral (aircraft)	(2,216)	(2,594)
Net exposure (fully provided for)	**1,465**	**1,631**

Detail of provisions/accumulated impairments are as follows:

in €m	31st December 2004	31st December 2003
Accumulated impairment on operating leases (see Note 12, "Property plant and equipment")	532	590
Accumulated impairment on loans from aircraft financing and finance leases (see Note 13, "Investments in associates, other investments and long-term financial assets")	466	431
Accumulated impairment on inventories	1	27
Provisions for aircraft financial risk (on balance sheet) (see Note 19 (d), "Other provisions")	33	38
Provisions for aircraft financial risk (commitment off balance sheet) (see Note 19 (d), "Other provisions")	433	545
Total provisions/accumulated impairments for sales financing exposure	**1,465**	**1,631**

Asset value guarantees – Certain sales contracts may include the obligation of an asset value guarantee whereby Airbus or ATR guarantee a portion of the value of an aircraft at a specific date after its delivery. Management considers the financial risks associated with such guarantees to be manageable. Three factors contribute to this assessment: (i) the guarantee only covers a tranche of the estimated future value of the aircraft, and its level is considered prudent in comparison to the estimated future value of each aircraft; (ii) the asset value guarantee related exposure is diversified over a large number of aircraft and customers; and (iii) the exercise dates of outstanding asset value guarantees are distributed through 2018. If the present value of the guarantee given exceeds 10% of the sales price of the aircraft, the sale of the underlying aircraft is accounted for as an operating lease (see Note 12, "Property, plant and equipment" and Note 22, "Deferred income"). In addition, EADS is contingently liable in case asset value guarantees with less than 10% are provided to customers as part of aircraft sales. Counter guarantees are negotiated with third parties and reduce the risk to which the group is exposed. As of 31st December 2004 the nominal value of asset value guarantees provided to airlines, that do not exceed the 10% criteria, amount to €810 million, excluding €413 million where the risk is considered to be remote. In many cases the risk is limited to a specific portion of the residual value of the aircraft. The present value of the risk inherent to the given asset value guarantees where a settlement is being considered as probable is fully provided for and included in the total amount of provisions for asset value risks of €473 million (see Note 19 (d): "Other provisions"). This provision covers a potential expected shortfall between the estimated value of the aircraft of the date upon which the guarantee can be exercised and the value guaranteed on a transaction basis taking counter guarantees into account.

Because exercise dates for asset value guarantees are on average in the 10th year following aircraft delivery, asset value guarantees issued in 2004 will generally not be exercisable prior to 2014, and, therefore, an increase in near-term exposure is not expected.

Despite the underlying collateral, if Airbus should be unable to honour its obligations under sales financing transactions and asset value guarantees, certain EADS and BAES group companies retain joint and several liability for sales financing exposure incurred by Airbus prior to 1st January 2001. EADS' exposure to liabilities incurred by Airbus following 1st January 2001 is limited by its status as a shareholder in Airbus S.A.S. With respect to ATR, each shareholder is jointly and severally liable to third parties without limitation. Amongst the shareholders, the liability is limited to each partner's proportionate share.

While **backstop commitments** to provide financing related to orders on Airbus' and ATR's backlog are also given, such commitments are not considered to be part of gross exposure until the financing is in place, which occurs when the aircraft is delivered. This is due to the fact that (i) past experience suggests it is unlikely that all such proposed financings actually will be implemented (although it is possible that customers not benefiting from such commitments may nevertheless request financing assistance ahead of aircraft delivery), (ii) until the aircraft is delivered, Airbus or ATR retain the asset and do not incur an unusual risk in relation thereto, and (iii) third parties may participate in the financing. In order to mitigate Airbus and ATR exposure to unacceptable credits, such commitments typically contain financial conditions which guaranteed parties must satisfy in order to benefit therefrom.

Pension commitments – EADS has several common investments with BAES, of which the most significant in terms of employees are Airbus and MBDA. In respect of each investment, for so long as BAES remains a shareholder, UK employees may stay in the BAES pensions schemes, which currently qualify as defined benefit plans. According to UK Accounting Standard FRS 17, BAES has disclosed for its pension schemes in UK and US a net (after tax) pension liability as of 31st December 2004 in a total amount of GBP 2,990 million. As participants in the BAES schemes, EADS investments are potentially affected by any shortfall of BAES schemes. However, the agreements between EADS and BAES have the effect of capping the contributions that the investment has to make to the pension scheme for a certain period of time (e.g. until 2011 for Airbus). Any additional contribution would be paid by BAES. EADS is therefore not exposed to increased contribution payments resulting from the pension underfunding during the period of the contribution caps. At present, EADS has only limited information about how the underfunding could impact the investments after the period of contribution caps has expired. Consequently, EADS expenses the contributions made to the pension scheme as if the plans were defined contribution plans.

Other commitments – Other commitments comprise contractual guarantees and performance bonds to certain customers as well as commitments for future capital expenditures.

Future nominal **operating lease payments** (for EADS as a lessee) for rental and lease agreements (not relating to aircraft sales financing) amount to €976 million as of 31st December 2004, and relate mainly to procurement operations (e.g., facility leases, car rentals). Maturities are as follows:

in €m	
Not later than 2005	97
later than 2005 and not later than 2009	296
later than 2009	583
Total	**976**

26. Information about financial instruments

a) Financial risk management

By the nature of the activities carried out, EADS is exposed to a variety of financial risks, especially foreign currency exchange rate risks and interest rate risks, as explained below. The management and limitation of the foreign exchange currency risks at EADS is generally carried out by a central treasury department at EADS Headquarters under policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks is in the responsibility of established treasury committees and the Group's Divisions and Business Units.

Market risk

Currency risk – EADS manages a long-term hedge portfolio with a maturity of several years covering its net exposure to US Dollar sales, mainly from the activities of Airbus. This hedge portfolio covers the majority of the Group's highly probable transactions.

Significant parts of EADS' revenues are denominated in US Dollars, whereas a major portion of its costs is incurred in Euros and to a smaller extent in GBP. Consequently, to the extent that EADS does not use financial instruments to cover its net current and future foreign currency exchange rate exposure, its profits are affected by changes in the Euro-US Dollar exchange rate. As the Group intends to generate profits only from its operations and not through speculation on foreign currency exchange rate movements, EADS uses hedging strategies to manage and minimize the impact of exchange rate fluctuations on these profits.

For financial reporting purposes, EADS designates a portion of the total firm future cash flows as the hedged position to cover its net foreign currency exposure, as described in the following paragraph. As hedging instruments, EADS primarily uses foreign currency forwards and option contracts.

1.2 Financial statements (continued)

Other notes to the IFRS consolidated financial statements

EADS endeavours to hedge the majority of its exposure based on firm commitments and forecasted transactions. For products such as aircraft, EADS typically hedges forecasted sales in US Dollar for the following year up to 2011. The hedged items are defined as first forecasted highly probable future cash inflows for a given month based upon final payments at delivery. The amount of the flows to be hedged is decided by a treasury committee and can cover up to 100% of the equivalent of the net US Dollar exposure. For EADS, a forecasted transaction is regarded as highly probable if the future delivery is included in the internally audited order book or is very likely to materialize in view of contractual evidence. The coverage ratio is adjusted to take into account macroeconomic movements affecting the spot and interest rates, as applicable.

The company also has foreign currency derivative instruments which are embedded in certain purchase and lease contracts denominated in a currency other than the functional currency of the significant parties to the contract, principally USD and GBP. Gains or losses relating to such embedded foreign currency derivatives are reported in other financial result.

Interest rate risk – The Group uses an asset and liability management approach with the objective to limit its interest rate risk. The Group undertakes to match the risk profile of its assets with a corresponding liability structure. The remaining net interest rate exposure is managed through several types of interest rate derivatives in order to minimize risks and financial impacts.

Hedging instruments that are specifically designated to debt instruments have at the maximum the same nominal amounts as well as the same maturity dates compared to the hedged item. Regarding cash, EADS is mainly investing in short-term instruments and/or instruments that are related to a floating interest index in order to further minimize any interest risk in its cash and securities portfolio.

Price Risk – The cash and cash equivalents and securities portfolio of the Group is invested mainly in non-speculative financial instruments, mostly highly liquid, such as certificates of deposits, overnight deposits, commercial papers and other money market instruments which generally are short term and subject to only an insignificant price risk. Therefore, the Group assesses its exposure towards price risk as minor.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents at any time to meet its present and future commitments. This is safeguarded by the reported total amount of the Group's cash and cash equivalents, which is further supported by a substantial amount of unused committed credit facility (€2.0 bn as 31st December 2004). On a daily basis, EADS invests any surplus cash mainly in non-speculative highly liquid financial instruments, such as certificates of deposits, overnight deposits, commercial papers and other money market instruments which are generally short term.

Credit risk

EADS is exposed to credit risk to the extent of non-performance by either its customers (e.g., airlines) or its counterparts with regards to financial instruments. However, the Group has policies in place to avoid concentrations of credit risk and to ensure that credit risk is limited. Sales of products and services are made to customers with an appropriate credit history. Cash transactions and derivative counterparts are limited to high credit quality financial institutions. EADS has set up a credit limit system to actively manage and limit its credit risk exposure. This limit system assigns maximum exposure lines to counterparts of financial transactions, based at a minimum on their credit ratings as published by Standard & Poors, Moody's and Fitch IBCA. The respective limits are regularly monitored and updated.

In order to support product sales, primarily at Airbus and ATR, EADS may agree to participate in the financing of customers, on a case-by-case basis, directly or through guarantees provided to third parties. In determining the amount and terms of the financing transaction, Airbus and ATR take into account the airline's credit rating as well as risk factors specific to the intended operating environment of the aircraft and its expected future value. Market yields and current banking practices also serve to benchmark the financing terms offered to customers, including price.

b) Notional amounts

The contract or notional amounts of derivative financial instruments shown below do not necessarily represent amounts exchanged by the parties and, thus, are not necessarily a measure for the exposure of the Group through its use of derivatives.

The notional amounts of foreign exchange derivative financial instruments are as follows, specified by year of expected maturity:

Year ended 31st December 2004 in €m	Remaining period not exceeding 1 year	1 year up to 5 years	more than 5 years	Total
Foreign Exchange Contracts:				
Net forward sales contracts	7,780	19,829	1,277	28,886
Structured USD forward: Purchased USD call options	180	452	0	632
Purchased USD put options	180	452	0	632
Written USD call options	180	452	0	632
FX swap contracts	189	102	0	291

Year ended 31st December 2003 in €m	Remaining period not exceeding 1 year	1 year up to 5 years	more than 5 years	Total
Foreign Exchange Contracts:				
Net forward sales contracts	7,104	22,581	3,604	**33,289**
Purchased USD put options	285	0	0	**285**
USD swap contracts	1,800	0	0	**1,800**

The notional amounts of interest rate contracts are as follows, specified by year of expected maturity:

Year ended 31st December 2004 in €m	Remaining period not exceeding 1 year	1 year up to 5 years	more than 5 years	Total
Interest Rate Contracts:	30	298	2,818	**3,146**

Year ended 31st December 2003 in €m	Remaining period not exceeding 1 year	1 year up to 5 years	more than 5 years	Total
Interest Rate Contracts:	0	802	2,964	**3,766**

Included in the interest rate contracts are interest rate swaps and interest rate caps.

c) Fair value of financial instruments

The fair value of a financial instrument is the price at which one party would assume the rights and/or duties of another party. Fair values of financial instruments have been determined with reference to available market information at the balance sheet date and the valuation methodologies discussed below. Considering the variability of their value-determining factors and the volume of financial instruments, the fair values presented herein may not be indicative of the amounts that the Group could realize in a current market environment.

The following interest rate curves are used in the determination of the fair value in respect of the financial instruments as of 31st December 2004 and 2003:

31st December 2004 Interest rate in %	EUR	USD	GBP
6 months	2.25	2.78	4.78
1 year	2.45	3.12	4.79
5 years	3.16	4.00	4.86
10 years	3.75	4.64	4.86

31st December 2003 Interest rate in %	EUR	USD	GBP
6 months	2.19	1.18	4.16
1 year	2.33	1.42	4.35
5 years	3.73	3.77	4.95
10 years	4.52	4.90	5.04

1.2 Financial statements (continued)

Other notes to the IFRS consolidated financial statements

The carrying amounts and fair values of the Group's financial instruments are as follows:

in €m	31st December 2004 Carrying amount	31st December 2004 Fair value	31st December 2003 Carrying amount	31st December 2003 Fair value
Balance Sheet Treasury Instruments				
Assets:				
Other investments and long-term financial assets	2,352	2,352	2,489	2,489
Securities	466	466	468	468
Cash and cash equivalents	8,718	8,718	7,404	7,404
Liabilities:				
Financial liabilities	5,126	5,411	4,767	4,776
Derivative Financial Instruments				
Currency contracts with positive fair values	8,925	8,925	7,932	7,932
Currency contracts with negative fair values	(95)	(95)	(18)	(18)
Interest rate contracts with positive fair values	23	23	32	32
Interest rate contracts with negative fair values	(86)	(86)	(82)	(82)
Embedded foreign currency derivatives with positive fair values	86	86	96	96

The fair value of financial liabilities as of 31st December 2004 has been estimated including all future interest payments and also reflects the interest rate as stated in the tables above.

The European Governments refundable advances of €5,119 million (in 2003: €4,851 million) are measured at amortized cost; a fair value can not be measured reliably due to their risk sharing nature and uncertainty about the repayment dates.

The development of the foreign exchange rate hedging instruments recognized in AOCI is as of 31st December 2004 and 2003 as follows:

in €m	Shareholders' equity	Minority interests	Total
1st January 2003	**1,498**	**416**	**1,914**
Unrealized gains and losses from valuations, net	3,292	776	4,068
Reclassification to the Consolidated Income Statement, net	(768)	(177)	(945)
Changes in fair values of hedging instruments, net	2,524	599	3,123
31st December 2003/ 1st January 2004	**4,022**	**1,015**	**5,037**
Unrealized gains and losses from valuations, net	1,596	390	1,986
Reclassification to the Consolidated Income Statement, net	(1,118)	(258)	(1,376)
Changes in fair values of hedging instruments, net	478	132	610
31st December 2004	**4,500**	**1,147**	**5,647**

Financial Assets and Liabilities – Fair values are based on estimates using various valuations techniques, such as present value of future cash flows. However, methods and assumptions followed to disclose data presented herein are inherently judgmental and involve various limitations like estimates as of 31st December 2004 and 2003, which are not necessarily indicative of the amounts that the Company would record upon further disposal/termination of the financial instruments.

The methodologies used are as follows:

Short-term investments, cash, short-term loans, suppliers – The carrying amounts reflected in the annual accounts are reasonable estimates of fair value because of the relatively short period of time between the origination of the instruments and its expected realization.

Long-term debt, short-term debt – Neither long term nor short term debt is classified as liabilities held for trading.

Securities – The fair value of securities included in available-for-sale investments is estimated by reference to their quoted market price at the balance sheet date. If a quoted market price is not available, fair value is determined on the basis of generally accepted valuation methods on the basis of market information available at the reporting date.

Currency and Interest Rate Contracts – The fair value of these instruments is the estimated amount that the Company would receive or pay to settle the related agreements as of 31st December 2004 and 2003.

27. Stock-based compensation

a) Stock Option Plans

Based on the authorization given to it by the shareholders' meetings (see dates below), the Group's Board of Directors approved (see dates below) stock option plans in 2004, 2003, 2002, 2001 and 2000. These plans provide to the members of the Executive Committee as well as to the Group's senior management the grant of options for the purchase of EADS shares.

For the 2004 stock option plan, analogous to all of EADS' previous existing stock option plans, the granted exercise price was exceeding the share price at grant date. Therefore, no compensation expense has been recognized.

The principal characteristics of these options are summarized in the tables below:

	First Tranche	Second Tranche	Third Tranche
Date of shareholders' meeting	24th May 2000	24th May 2000	10th May 2001
Date of Board of Director meeting (grant date)	26th May 2000	26th October 2000	12th July 2001
Number of options granted	5,324,884	240,000	8,524,250
Number of options outstanding	4,635,900	238,000	7,490,225
Total number of eligible employees	850	34	1,650
Exercise Date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options; moreover, the options may not be exercised during a period of 3 weeks preceding each annual general meeting of shareholders or the date of announcement of annual or semi-annual results or quarterly figures.		
Expiry date	Tenth anniversary of the date of the grant of the option		
Conversion Right	One option for one share		
Vested	100% vested	100% vested	100% vested
Exercise Price	Euro 20.90	Euro 20.90	Euro 24.66
Exercise Price Conditions	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant
Number of exercised options	90,500	0	0

1.2 Financial statements (continued)

Other notes to the IFRS consolidated financial statements

	Fourth Tranche	Fifth Tranche	Sixth Tranche
Date of shareholders' meeting	10th May 2001	6th May 2003	6th May 2004
Date of Board of Director meeting (grant date)	9th August 2002	10th October 2003	8th October 2004
Number of options granted	7,276,700	7,563,980	7,777,280
Number of options outstanding	6,777,828	7,456,440	7,777,280
Total number of eligible employees	1,562	1,491	1,495
Exercise date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options; moreover, the options may not be exercised during a period of 3 weeks preceding each annual general meeting of shareholders or the date of announcement of annual or semi-annual results or quarterly figures. As regards to the sixth tranche, part of the options granted to the top EADS Executives are performance related.		
Expiry date	Tenth anniversary of the date of the grant of the option		
Conversion Right	One option for one share		
Vested	50%	0%	0%
Exercise Price	Euro 16.96	Euro 15.65	Euro 24.32
Exercise Price Conditions	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant
Number of exercised options	262,647	9,600	0

The following table summarizes the development of the number of stock options:

First & Second Tranche	Options granted	Balance at 1st January	Number of Options Exercised	Forfeited	Balance at 31st December
2000	5,564,884	–	–	(189,484)	5,375,400
2001	–	5,375,400	–	–	5,375,400
2002	–	5,375,400	–	–	5,375,400
2003	–	5,375,400	–	(75,000)	5,300,400
2004	–	5,300,400	(90,500)	(336,000)	4,873,900

Third Tranche	Options granted	Balance at 1st January	Number of Options Exercised	Forfeited	Balance at 31st December
2001	8,524,250	–	–	(597,825)	7,926,425
2002	–	7,926,425	–	–	7,926,425
2003	–	7,926,425	–	(107,700)	7,818,725
2004	–	7,818,725	–	(328,500)	7,490,225

Fourth Tranche	Options granted	Balance at 1st January	Number of Options Exercised	Forfeited	Balance at 31st December
2002	7,276,700	–	–	(600)	7,276,100
2003	–	7,276,100	–	(70,125)	7,205,975
2004	–	7,205,975	(262,647)	(165,500)	6,777,828

Fifth Tranche	Options granted	Balance at 1st January	Number of Options Exercised	Forfeited	Balance at 31st December
2003	7,563,980	–	–	–	7,563,980
2004	–	7,563,980	(9,600)	(97,940)	7,456,440

Sixth Tranche	Options granted	Balance at 1st January	Number of Options Exercised	Forfeited	Balance at 31st December
2004	7,777,280	–	–	–	7,777,280
Total	**36,707,094**	**–**	**(362,747)**	**(1,968,674)**	**34,375,673**

b) Employee Stock Ownership Plan (ESOP)
In 2004, the Board of Directors approved an additional ESOP following four ESOPs established in 2003, 2002, 2001 and in 2000. For the 2004 ESOP, eligible employees were able to purchase a maximum of 500 shares per employee of previously unissued shares. The offer was broken down into two tranches which were available for all employees to choose. The subscription price for tranche A was €18.00. The subscription price for tranche B was the higher of the subscription price for tranche A or 80% of the average opening market price for EADS shares on the Paris stock exchange over the twenty trading days preceding 8th October 2004, resulting in a subscription price of €18.00.

During a lockup period of at least one year under tranche A or five years under tranche B, employees are restricted from selling the shares, but have the right to receive all dividends paid as well as have the ability to vote at the annual shareholder meetings. EADS sold 2,017,822 ordinary shares with a nominal value of €1.00 under both tranches. No compensation expense was recognized in connection with the ESOP 2004.

28. Related party transactions

Related parties – The Group has entered into various transactions with related companies in 2004, 2003 and 2002 that have all been carried out in the normal course of business. As is the Group's policy, all related party transactions have to be carried out at arm's length. Transactions with related parties include the French State, DaimlerChrysler, Lagardère, and SEPI (Spanish State). Except for the transactions with the French State the transactions are not considered material to the Group either individually or in the aggregate. The transactions with the French State include mainly sales from the Aeronautics, Defence & Security Systems, and Space divisions.

Remuneration – Remuneration and related costs of the members of the Board of Directors and former Directors amount to €8.79 million as of 31st December 2004 (2003: €8.01 million). Since the exercise price for stock options granted to Directors exceeded the share price at grant date, this amount does not comprise compensation cost for stock-based compensation. EADS has not provided any loans to/advances to/guarantees on behalf of (retired) Directors. Reference is made to Note 27, "Stock-based compensation", in this document and to Note 8, "Remuneration", of the Notes to EADS N.V. Financial Statements.

29. Investment property

The Group owns investment property accounted for under property, plant and equipment, mainly contributed by Dasa to EADS, that is leased to third parties. The investment property contributed by Dasa was recorded at fair value as of 1st July 2000. For the purposes of IAS 40, "Investment property", disclosure requirements, EADS developed the fair values of investment property based on the values on the opening balance sheet of EADS.

The fair values have been determined by using market based multiplier for estimated rental income or using available market prices.

Buildings held as investment property are depreciated on a linear basis over their useful life up to 20 years. The values assigned to investment property are as follows:

in €m	Historical cost	Accumulated depreciation 31st December 2003	Book value 31st December 2003	Depreciation Amortisation	Disposal	Transfer	Accumulated depreciation 31st December 2004	Net at 31st December 2004
Book value of Investment Property	283	(42)	241	(50)	(9)	(23)	(92)	159

1.2 Financial statements (continued)

Other notes to the IFRS consolidated financial statements

As of 31st December 2004, the fair value of the Group's investment property amounts to €159 million. Related rental income in 2004 is €9 million with direct operating expenses amounting to €5 million.

Included in the depreciation is an impairment charge of €40 million recognized in cost of sales.

30. Interest in Joint Ventures

The Group's principal investments in joint ventures and the proportion of ownership are included in Appendix "Information on principal investments". Joint ventures are consolidated for using the proportionate method.

The following amounts represent the Group's aggregate share of the assets and liabilities and income and expenses of the joint ventures:

in €m	2004	2003
Fixed assets	589	572
Non-fixed assets	1,805	1,745
Provisions	187	176
Liabilities	1,671	1,599
Revenues	1,732	1,471
Profit from ordinary activities	99	88
Net income	78	76

31. Earnings Per Share

Basic earnings per share – Basic earnings per share is calculated by dividing net income (loss) attributable to shareholders by the weighted average number of issued ordinary shares during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

	2004	2003	2002
Net income/(loss) attributable to shareholders	€1,030 m	€152 m	€(299) m
Weighted average number of ordinary shares	801,035,035	800,957,248	804,116,877
Basic earnings per share	€1.29	€0.19	€(0.37)

Diluted earnings per share – For the calculation of the diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all potential ordinary shares. The Group's only category of dilutive potential ordinary shares is stock options. In 2004, the average share price of EADS exceeded the exercise price of the stock options under the 4th and 5th stock option plans. Hence, 3,047,837 shares were considered in the calculation of diluted earnings per share. In 2002 and 2003, there was no dilution impact of shares under all existing stock option plans. As a consequence, the weighted average number of shares outstanding were the same for both basic and diluted earnings per share.

	2004	2003	2002
Net income/(loss) attributable to shareholders	€1,030 m	€152 m	€(299) m
Weighted average number of ordinary shares	804,082,872	800,957,248	804,116,877
Diluted earnings per share	€1.28	€0.19	€(0.37)

32. Number of Employees

The number of employees at 31st December 2004 is 110,662 as compared to 109,135 at 31st December 2003.

33. Events after the balance sheet date

In February 2005, EADS has sold its Enterprise Telephony Business to Aastra. This business has generated revenues of €164 million in Defence & Security Systems division in 2004.

The financial statements have been authorized for issuance by the Board of Directors on 8th March 2005.

1.2 Financial statements (continued)

Notes to the consolidated financial statements – Consolidation scope

"Information on principal investments" – Consolidation Scope

	2004	%	2003	%	Company	Head office
Airbus						
	F	80.00	F	80.00	128829 Canada Inc.	Canada
	F	80.00	F	80.00	A 320 Financing limited	Ireland
	F	80.00	F	80.00	AA Credit Aircraft Leasing Limited	Isle Of Man
	F	80.00	F	80.00	AFC USA 1 inc	USA
	F	80.00	F	80.00	AFS (Cayman) Ltd	Ireland
	F	80.00	F	80.00	AFS Cayman 11 Limited	Cayman Isle
	F	80.00	F	80.00	AFS Cayman Aerospace Limited	Ireland
	F	80.00	F	80.00	AI leasing Inc.	U.S.A.
	F	80.00	F	80.00	AI Participations S.A.R.L.	Blagnac (France)
	F	80.00	F	80.00	AIFI LLC	Isle Of Man
	F	80.00	F	80.00	AIFS (Cayman) ltd.	Cayman Isle
	F	80.00	F	80.00	AIFS Cayman Liquidity ltd.	Cayman Isle
	F	80.00	F	80.00	AIFS Leasing Company Limited	Ireland
	F	80.00	F	80.00	AINA Inc.	U.S.A.
	F	80.00	F	80.00	Airbus China limited	Hong-Kong
	F	80.00	F	80.00	Airbus Deutschland GmbH	Hamburg (Germany)
	F	80.00	F	80.00	Airbus Espana SL	Madrid (Spain)
	F	80.00	F	80.00	Airbus Finance Company Ltd	Dublin (Ireland)
	F	80.00	F	80.00	Airbus Financial Service Holdings ltd.	Ireland
	F	80.00	F	80.00	Airbus Financial Service ltd.	Ireland
	F	80.00	F	80.00	Airbus France S.A.S	Toulouse (France)
	F	80.00	F	80.00	Airbus Holding SA	France
	F	80.00	F	80.00	Airbus Industrie Financial Service Holdings B.V.	Netherlands
			F	80.00	Airbus Industrie G.I.E.	Blagnac (France)
	F	80.00	F	80.00	Airbus Invest	Toulouse (France)
	F	80.00	F	80.00	Airbus North America engineering (in 2003: Wichita)	U.S.A.
	F	80.00	F	80.00	Airbus North American Holdings Inc. (AINA)	U.S.A.
	F	80.00	F	80.00	Airbus S.A.S	Toulouse (France)
	F	80.00	F	80.00	Airbus Service Company Inc. (ASCO)	U.S.A.
	F	80.00	F	80.00	Airbus Transport International S.N.C. (ATI)	Blagnac (France)
	F	80.00	F	80.00	Airbus UK Limited	UK
	F	80.00	F	80.00	Aircabin GmbH	Laupheim (Germany)
	E	16.00	E	16.00	Alexandra Bail G.I.E	France
	F	80.00	F	80.00	Avaio Aerospace Limited	Ireland
	F	80.00	F	80.00	Avaio Aviation Limited	Ireland
	F	80.00	F	80.00	Avaio International Limited	Ireland
	F	80.00	F	80.00	Avaio Leasing Limited	Ireland
	F	80.00	F	80.00	Avaio Limited	Isle Of Man
	F	80.00	F	80.00	Aviateur Aerospace Limited	Ireland

1.2 Financial statements (continued)

Notes to the consolidated financial statements – Consolidation scope

2004	%	2003	%	Company	Head office
F	80.00	F	80.00	Aviateur Eastern Limited	Ireland
F	80.00	F	80.00	Aviateur Finance Limited	Ireland
F	80.00	F	80.00	Aviateur International Limited	Ireland
F	80.00	F	80.00	Aviateur Leasing Limited	Ireland
F	80.00	F	80.00	Aviateur Limited	Ireland
E	26.40			Avion Capital Limited	Ireland
F	80.00	F	80.00	Avion Finance Limited	Ireland
F	80.00	F	80.00	AVSA Canada Inc.	Canada
F	80.00	F	80.00	AVSA SARL	Blagnac (France)
F	80.00	F	80.00	KID-Systeme GmbH	Buxtehude (Germany)
F	80.00	F	80.00	Norbus	U.S.A.
F	80.00	F	80.00	Star Real Estate SAS	Boulogne (France)
F	80.00	F	80.00	Total Airline Service Company	United Arab Emirates
Additionally consolidated are 45 SPE's					
Defence & Security Systems					
F	100.00	F	100.00	Aircraft Services Lemwerder GmbH	Lemwerder (Germany)
P	37.50	P	37.50	ALKAN	Valenton (France)
F	100.00	F	100.00	Apsys	France
F	99.99	F	99.99	ARC	CA, USA
F	55.00	F	55.00	Aviation Defense Service S.A.	Saint-Gilles (France)
P	50.00	P	50.00	Bayern-Chemie Gesellschaft für flugchemische Antriebe mbH	Aschau/Inn (Germany)
F	100.00	F	100.00	Cogent Defence & Security Networks	Newport, Wales (UK)
F	100.00	F	100.00	Dornier Flugzeugwerft GmbH	Manching (Germany)
F	93.58	F	93.58	Dornier Services GmbH	Friedrichshafen (Germany)
F	93.58	F	93.58	Dornier Verteidigung und Zivile Systeme	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS CASA Military Aircraft	Madrid (Spain)
F	100.00	F	100.00	EADS Defence & Security Systems SA	Velizy (France)
F	100.00	F	100.00	EADS Deutschland GmbH – Military Aircraft TB 51	Munich (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH – VA (Restaktivitäten)	Unterschleißheim (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH – Verteidigung und Zivile Systeme	Ulm (Germany)
F	100.00	F	100.00	EADS Operations & Services UK	UK
F	100.00	F	100.00	EADS Services	Boulogne (France)
F	100.00	F	100.00	EADS System & Defence Electronics Belgium	Oostkamp (Belgium)
F	100.00	F	100.00	EADS Telecom Benelux	Bruxelles (Belgium)
F	100.00	F	100.00	EADS Telecom Danmark	Copenhague (Denmark)
F	100.00	F	100.00	EADS Telecom Deutschland GmbH	Ulm (Germany)

2004	%	2003	%	Company	Head office
F	100.00	F	100.00	EADS Telecom Deutschland GmbH	Untershleissheim (Germany)
F	100.00	F	100.00	EADS Telecom Espana	Madrid (Spain)
F	100.00	F	100.00	EADS Telecom Federal Systems Division	San Antonio, TX, USA
F	100.00	F	100.00	EADS Telecom Inc	Dallas, Texas (USA)
F	100.00	F	100.00	EADS Telecom Mexico SA de CV	Mexico DF (Mexico)
F	98.95	F	98.95	EADS Telecom North America Inc	Dallas, Texas (USA)
F	100.00	F	100.00	EADS Telecom SAS	Bois d'Arcy (France)
F	100.00	F	100.00	EADS Telecom Spa	Milan (Italy)
F	100.00	F	100.00	EADS Telecom UK Ltd	Newport, Wales (UK)
F	100.00	F	100.00	EUROBRIDGE Mobile Brücken GmbH	Friedrichshafen (Germany)
F	100.00	F	100.00	Ewation GmbH	Ulm (Germany)
F	100.00	F	100.00	Fairchild Controls Corporation	Frederick Maryland (USA)
F	100.00	F	100.00	FmElo Elektronik- und Luftfahrtgeräte GmbH	Ulm (Germany)
P	50.00	P	50.00	Forges de Zeebrugge S.A.	Herstal-Liege (Belgium)
F	100.00	F	100.00	Germantown Holding Company	Frederick Maryland (USA)
F	100.00	F	100.00	Gesellschaft für Flugzieldarstellung mbH	Germany
F	100.00	F	100.00	Hagenuk Marinekommunikation GmbH	Flintbek (Germany)
F	98.95	F	98.95	Intecom Holding ULC	Dallas, Texas (USA)
F	100.00	F	100.00	International Test & Services	Velizy (France)
F	81.25	F	81.25	LFK – Lenkflugkörpersysteme GmbH	Unterschleißheim (Germany)
F	100.00	F	100.00	LFK Objekt Nabern GmbH & Co.KG	Unterschleißheim (Germany)
F	100.00	F	100.00	M.C.N. SAT HOLDING	Velizy (France)
F	100.00	F	100.00	M.P. 13	Paris (France)
P	50.00	P	50.00	Maîtrise d'Oeuvre SyStème	Issy les Moulineaux (France)
F	100.00	F	100.00	Manhattan Beach Holdings Co.	Frederick Maryland (USA)
P	37.50	P	37.50	Marconi Overside Ldt.	Chelmsford (UK)
F	100.00	F	100.00	Matra Aerospace Inc.	Frederick Maryland (USA)
F	100.00	F	100.00	Matra Défense	Velizy (France)
P	37.50	P	37.50	Matra Electronique	La Croix Saint-Ouen (France)
F	100.00	F	100.00	Matra Holding GmbH	Frankfurt (Germany)
P	37.50	P	37.50	MBDA France	Velizy (France)
P	37.50	P	37.50	MBDA Holding	Velizy (France)
P	37.50	P	37.50	MBDA Inc	Westlack, CA (USA)
P	37.50	P	37.50	MBDA Italy SpA	Roma (Italy)

1.2 Financial statements (continued)

Notes to the consolidated financial statements – Consolidation scope

	2004	%	2003	%	Company	Head office
	P	37.50	P	37.50	MBDA M S.A.	Chatillon sur Bagneux (France)
	P	37.50	P	37.50	MBDA SAS	Velizy (France)
	P	37.50	P	37.50	MBDA Services	Velizy (France)
	P	37.50	P	37.50	MBDA Treasury	Jersey (UK)
	P	37.50	P	37.50	MBDA UK Ltd.	Stevenage, Herts (UK)
			F	100.00	MULTICOMS	Vélizy (France)
	F	100.00	F	100.00	Operations Services Germany	Unterschleißheim (Germany)
	F	80.00	F	80.00	Pentastar Holding	Paris (France)
	F	100.00	F	100.00	Proj2	Paris (France)
	P	50.00	P	50.00	Propulsion Tactique S.A.	La Ferte Saint Aubin (France)
	F	98.95	F	98.95	Pyderion Contact Technologies Inc.	Dallas, Texas (USA)
	F	100.00			Racal Instruments US	San Antonio, Texas (USA)
	F	100.00			Racal Instruments UK	Wimborne, Dorset, UK
	E	33.00	E	33.00	Reutech Radar Systems (Pty) Ltd.	Stellenbosch (South Africa)
	E	18.75	E	18.75	Roxel	Saint-Médard-en-Jalles (France)
	F	100.00	F	100.00	Sycomore S.A.	Boulogne-Billancourt (France)
	F	67.00	F	67.00	TAURUS Systems GmbH	Schrobenhausen (Germany)
	P	50.00	P	50.00	TDA – Armements S.A.S.	La Ferte Saint Aubin (France)
	F	98.00	F	98.00	TDW- Ges. für verteidigungstechnische Wirksysteme GmbH	Schrobenhausen (Germany)
	E	25.00	E	25.00	Telefunken (in 2003: EADS Radio Communication Systems GmbH & Co. KG)	Ulm, Germany
	F	100.00	F	100.00	TYX Corp.	Reston, VA, USA
	E	50.00	E	50.00	United Monolithic Semiconductors France SAS	Orsay (France)
	E	50.00	E	50.00	United Monolithic Semiconductors Holding	Orsay (France)
	E	50.00	E	50.00	United Monolithics Semiconductor GmbH	Ulm (Germany)
	F	90.00			UTE CASA A.I.S.A.	Madrid (Spain)
Space						
	F	100.00	F	100.00	Computadoras, Redes e Ingenieria SA (CRISA)	Madrid (Spain)
	F	100.00	F	100.00	EADS Astrium GmbH	Munich (Germany)
	F	100.00	F	100.00	EADS Astrium Jersey Ltd.	Jersey (UK)
	F	100.00	F	100.00	EADS Astrium Ltd.	Stevenage (UK)
	F	100.00	F	100.00	EADS Astrium N.V.	The Hague (Netherlands)
	F	100.00	F	100.00	EADS Astrium SAS	Toulouse (France)
	F	100.00	F	100.00	EADS CASA Espacio S.L.	Madrid (Spain)

	2004	%	2003	%	Company	Head office
	F	100.00	F	100.00	EADS Deutschland GmbH – Space Services	Munich (Germany)
	F	68.40	F	68.40	EADS Dornier Raumfahrt Holding GmbH	Munich (Germany)
	F	100.00	F	100.00	EADS Space B.V.	Amsterdam (Netherlands)
	F	100.00			EADS Space Management & Services SAS	Paris (France)
	F	100.00	F	100.00	EADS Space Transportation (Holding) SAS	Paris (France)
	F	100.00	F	100.00	EADS Space Transportation GmbH	Munich (Germany)
	F	100.00	F	100.00	EADS Space Transportation N.V.	Amsterdam (Netherlands)
	F	100.00	F	100.00	EADS Space Transportation SAS	Les Muraux (France)
	F	100.00	F	100.00	Global DASA LLC	New York (USA)
	F	100.00			Infoterra GmbH	Friedrichshafen (Germany)
	F	100.00	F	100.00	Infoterra Ltd	Southwood (UK)
	F	100.00	F	100.00	Matra Marconi Space UK Ltd.	Stevenage (UK)
	F	100.00	F	100.00	MMS Systems Ltd	Stevenage (UK)
	E	47.40	E	47.40	Nahuelsat S.A.	Buenos Aires (Argentina)
	F	100.00	F	100.00	Paradigm Secure Communications (Holding) Ltd.	Stevenage (UK)
	F	100.00	F	100.00	Paradigm Secure Communications Ltd	Stevenage (UK)
	F	100.00	F	100.00	Paradigm Services Ltd	Stevenage (UK)
	F	100.00	F	100.00	TESAT-Spacecom Geschäftsführung GmbH	Backnang (Germany)
	F	100.00	F	100.00	TESAT-Spacecom GmbH & Co. KG	Backnang (Germany)
Military Transport Aircraft						
	F	76.12	F	76.12	Airbus Military S.L.	Madrid (Spain)
	F	100.00	F	100.00	EADS CASA North America, Inc	Chantilly/Virginia (USA)
	F	100.00	F	100.00	EADS CASA S.A. (Unit: EADS CASA Military Transport Aircraft)	Madrid (Spain)
	F	75.00			EADS PZL "WARSZAWA-OKECIE" S.A.	Warsaw (Poland)
Aeronautics						
	F	80.00	F	80.00	Aerobail GIE	Paris (France)
	F	100.00	F	100.00	American Eurocopter Corp.	Dallas, Texas (USA)
	F	60.00	F	60.00	American Eurocopter LLC	Dallas, Texas (USA)
	P	50.00	P	50.00	ATR Eastern Support	Singapour (Singapour)
	P	50.00	P	50.00	ATR GIE	Toulouse (France)
	P	50.00	P	50.00	ATR International SARL	Toulouse (France)
	P	50.00	P	50.00	ATR North America Inc	Washington D.C. (USA)
	P	50.00	P	50.00	ATR Training Center SARL	Toulouse (France)
	P	50.00	P	50.00	ATRiam Capital Ltd	Dublin (Ireland)
	F	50.10	F	50.10	Composites Aquitaine S.A.	Salaunes (France)
	F	50.00	F	50.00	Composites Atlantic Ltd.	Halifax (Canada)
	F	88.00	F	88.00	EADS Aeroframe services LLC	Lake Charles, Louisiana (USA)

1.2 Financial statements (continued)

Notes to the consolidated financial statements – Consolidation scope

	2004	%	2003	%	Company	Head office
	F	100.00	F	100.00	EADS ATR S.A.	Toulouse (France)
	F	100.00	F	100.00	EADS EFW Beteiligungs- und Verwaltungsgesellschaft GmbH	Munich (Germany)
	E	49.99	F	100.00	EADS Revima APU S.A.	Caudebec en Caux (France)
	F	100.00	F	100.00	EADS Revima S.A.	Tremblay en France (France)
	F	100.00	F	100.00	EADS Seca S.A.	Le Bourget (France)
	F	100.00	F	100.00	EADS Socata S.A.	Le Bourget (France)
	F	100.00	F	100.00	EADS Sogerma S.A.	Mérignac (France)
	F	50.10	F	50.10	EADS Sogerma Tunisie	Monastir (Tunisia)
	F	100.00	F	100.00	Elbe Flugzeugwerke GmbH	Dresden (Germany)
	F	75.00	F	75.00	Eurocopter South East Asia	Singapore (Singapore)
	F	100.00	F	100.00	Eurocopter Canada Ltd.	Ontario (Canada)
	F	100.00	F	100.00	Eurocopter Deutschland GmbH	Donauwörth (Germany)
	F	100.00			Eurocopter España S.A.	Madrid (Spain)
	F	100.00	F	100.00	Eurocopter Holding S.A.	Paris (France)
	F	100.00	F	100.00	Eurocopter S.A.	Marignane (France)
	F	76.52	F	76.52	Helibras – Helicopteros do Brasil S.A.	Itajuba (Brazil)
	F	100.00	F	100.00	Maroc Aviation S.A.	Casablanca (Morocco)
	F	100.00	F	100.00	Noise Reduction Engineering B.C.	Washington D.C. (USA)
	F	100.00	F	100.00	Socata Aircraft Inc.	Miami, Florida (USA)
	F	100.00	F	100.00	Sogerma America Barfield B.C.	Miami, Florida (USA)
	F	100.00	F	100.00	Sogerma Drawings S.A.	Mérignac (France)
Additionally consolidated are 41 SPE's						
Headquarters						
	F	100.00	F	100.00	Airbus Financial Company Holding B.V.	Dublin (Ireland)
	F	75.00	F	75.00	DADC Luft- und Raumfahrt Beteiligungs AG	Munich (Germany)
	E	46.22	E	46.03	Dassault Aero Service	
	E	46.22	E	46.03	Dassault Assurances Courtage	
	E	46.22	E	46.03	Dassault Aviation	Paris (France)
	E	46.22	E	46.03	Dassault Falcon Jet and subsidiaries	Teterboro NJ (USA)
	E	46.22	E	46.03	Dassault Falcon Service	
	E	46.22	E	46.03	Dassault International France	Vaucresson (France)
	E	46.22	E	46.03	Dassault International Inc	Paramus NJ (USA)
	F	93.58	F	93.58	Dornier Zentrale	Friedrichshafen (Germany)
	F	100.00	F	100.00	EADS CASA France	Paris (France)
	F	100.00	F	100.00	EADS CASA S.A. (Headquarters)	Madrid (Spain)
	F	100.00	F	100.00	EADS Deutschland GmbH – Zentrale	Munich (Germany)
	F	100.00	F	100.00	EADS Deutschland GmbH, FO – Forschung	Munich (Germany)
	F	100.00	F	100.00	EADS Deutschland GmbH, LO – Liegenschaften OTN	Munich (Germany)

1.2 Financial statements (continued)

Notes to the consolidated financial statements – Consolidation scope

2004	%	2003	%	Company	Head office
F	100.00			EADS Finance B.V.	Amsterdam (Netherlands)
F	100.00	F	100.00	EADS France	Paris (France)
F	100.00	F	100.00	EADS North America Inc.	Washington (USA)
F	100.00	F	100.00	EADS Raumfahrt Beteiligungs GmbH	Ottobrunn (Germany)
F	93.58			EADS Real Estate Dornier Grundstücke GmbH & Co. KG	Taufkirchen (Germany)
E	46.22	E	46.03	IPS	
E	46.22	E	46.03	Société Toulouse Colomiers	
E	46.22	E	46.03	Sogitec Industries	Suresnes (France)

F: Fully consolidated

P: Proportionate

E: Equity method

The respective stated percentage of ownership is considered to represent the direct participation in the company.

1.2 Financial statements (continued)

Auditors' Report on the IFRS Consolidated Financial Statements

Auditors' Report

Introduction

We have audited the accompanying IFRS consolidated financial statements of EADS N.V., Amsterdam for the year 2004. These IFRS consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these IFRS consolidated financial statements based on our audit.

Scope

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the IFRS consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the IFRS consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the IFRS consolidated financial statements give a true and fair view of the company's financial position as of 31st December 2004 and of the result for the year then ended in accordance with International Financial Reporting Standards.

Rotterdam, 8th March 2005:
KPMG Accountants N.V.

Amsterdam, 8th March 2005:
Ernst & Young Accountants

1.2 Financial statements (continued)

1.2.2 Financial Statements (Dutch GAAP)

1.2.2.1 Consolidated financial statements (Dutch GAAP)

Consolidated Income Statements for the years 2004, 2003, 2002

In millions of €	Note	2004	2003	2002
Revenues		31,761	30,133	29,901
Cost of sales		(25,510)	(24,594)	(24,465)
Gross margin		**6,251**	**5,539**	**5,436**
Selling expenses		(798)	(776)	(829)
Administrative expenses		(1,321)	(1,386)	(1,422)
Research and development expenses		(2,126)	(2,189)	(2,096)
Other income		314	196	248
Other expenses	4	(769)	(823)	(1,177)
thereof goodwill amortisation and related impairment losses	4	(592)	(567)	(936)
Income from operating activities		**1,551**	**561**	**160**
Income from investments	5	58	186	87
thereof income from associates	5	62	224	108
Interest result		(275)	(203)	(81)
Other financial result		(55)	148	21
Financial result		(272)	131	27
Income taxes		(664)	(474)	(453)
Profit (loss) from ordinary activities		**615**	**218**	**(266)**
Minority interests	6	(128)	(66)	(33)
Net income (loss)		**487**	**152**	**(299)**

The accompanying notes are an integral part of these Consolidated Financial Statements.

1.2 Financial statements (continued)

Consolidated Balance Sheets at December 31, 2004 and 2003

in millions of €	Note	2004	2003
Assets			
Intangible assets	4	9,416	9,694
Property, plant and equipment		12,905	11,448
Investments in associates	5	1,712	1,640
Other investments and long-term financial assets		2,352	2,489
Fixed assets		**26,385**	**25,271**
Inventories		3,075	3,279
Trade receivables		4,406	4,001
Other receivables and other assets		11,105	10,280
Securities		466	468
Cash and cash equivalents		8,718	7,404
Non-fixed assets		**27,770**	**25,432**
Deferred taxes		**2,543**	**2,724**
Prepaid expenses		**951**	**951**
Total assets		**57,649**	**54,378**
Liabilities and shareholders' equity			
Capital stock		810	813
Reserves		9,711	9,589
Accumulated other comprehensive income		6,086	5,934
Treasury shares		(177)	(187)
Shareholders' equity		**16,430**	**16,149**
Minority interests	6	**2,295**	**2,179**
Provisions		**8,573**	**8,726**
Financial liabilities		5,126	4,767
Trade liabilities		5,860	5,117
Other liabilities		13,240	11,318
Liabilities		**24,226**	**21,202**
Deferred taxes		**4,134**	**3,664**
Deferred income		**1,991**	**2,458**
Total liabilities and shareholders' equity		**57,649**	**54,378**

The accompanying notes are an integral part of these Consolidated Financial Statements.

1.2 Financial statements (continued)

Consolidated Statements of Cash Flows for the years 2004, 2003 and 2002

In millions of euros	2004	2003	2002
Net income (loss)	**487**	**152**	**(299)**
Income applicable to minority interests	128	66	33
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization of fixed assets	2,213	2,375	2,768
Valuation adjustments and CTA release	(200)	263	177
Deferred tax expenses (income)	537	(138)	255
Results on disposal of fixed assets/businesses and result of associates (equity method)	(70)	(274)	(227)
Change in provisions	(237)	246	(845)
Change in other operating assets and liabilities:	**2,155**	**2,019**	**804**
– Inventories, net	282	160	274
– Trade receivables	(403)	168	895
– Trade liabilities	756	116	(139)
– Other assets and liabilities	1,520	1,575	(226)
Cash provided by operating activities	**5,013**	**4,709**	**2,666**
Investments:			
– Purchases of intangible and fixed assets	(3,017)	(2,672)	(2,213)
– Proceeds from disposals of intangible and fixed assets	36	47	120
– Acquisitions of subsidiaries (net of cash)	(100)	(92)	(19)
– Proceeds from disposals of subsidiaries (net of cash)	0	32	84
– Payments for investments in other financial assets	(482)	(728)	(1,115)
– Proceeds from disposals of other financial assets	492	346	735
– Increase in equipment of leased assets	(656)	(279)	(101)
– Proceeds from disposals of leased assets	74	8	120
– Increase in finance lease receivables	(261)	(443)	(749)
– Decrease in finance lease receivables	110	84	150
– Dividends paid by companies valued at equity	36	38	30
Change in securities	10	336	(264)
Change in cash from changes in consolidation	9	(152)	5
Cash used for investing activities	**(3,749)**	**(3,475)**	**(3,217)**
Change in financial liabilities	474	1,132	(774)
Cash distribution paid to shareholders	(320)	(240)	(403)
Repayments/dividends to minorities	(64)	(38)	(127)
Capital increase	43	21	16
Purchase of treasury shares	(81)	(31)	(156)
Others	0	8	(3)
Cash provided by (used for) financing activities	**52**	**852**	**(1,447)**
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents	(2)	(83)	(82)
Net increase (decrease) in cash and cash equivalents	**1,314**	**2,003**	**(2,080)**
Cash and cash equivalents at beginning of period	**7,404**	**5,401**	**7,481**
Cash and cash equivalents at end of period	**8,718**	**7,404**	**5,401**

1.2 Financial statements (continued)

The following represents supplemental information with respect to cash flows from **operating activities**:

in millions of €	2004	2003	2002
Interest paid	(367)	(311)	(407)
Income taxes paid	(302)	(383)	(318)
Interest received	329	338	403
Dividends received	57	55	49

The accompanying notes are an integral part of these Consolidated Financial Statements.

1.2 Financial statements (continued)

Notes to the consolidated financial statements (Dutch GAAP)

1. Accounting principles applied for Dutch GAAP purposes

The financial statements of EADS N.V. and the consolidated financial statements that are included in this section are prepared on a basis consistent with generally accepted accounting principles in the Netherlands ("**Dutch GAAP**"). These accounting principles are largely in conformity with the accounting policies that are applied in the Company's primary consolidated financial statements as prepared under International Financial Reporting Standards (IFRS).

The notes to the consolidated financial statements as prepared under IFRS are an integral part of the financial statements as prepared under Dutch regulations in this section. Material differences based on differences between IFRS and Dutch GAAP are disclosed separately in this section.

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, not exceeding 20 years under Dutch GAAP. The Company assesses the recoverability by determining whether the unamortized balance of goodwill can be recovered from future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows.

2. Presentation of financial statements

In accordance with article 362:4 of the Netherlands Civil Code, the financial statements presentation in this Dutch GAAP section does not fully comply with Dutch regulations as these are presented to align entirely with the IFRS financial statements including the notes thereto. Additionally this presentation is consistent with prior reporting periods.

3. Dutch GAAP reconciliation

The accounting principles applied in the preparation of IFRS consolidated financial statements differ in some respects from those generally accepted in the Netherlands. For the determination of net income and stockholders' equity in accordance with Dutch GAAP, the following difference with IFRS has to be taken into account:

EADS decided to adapt early IFRS 3 and revised IAS 36 and IAS 38 and to apply these standards as of January 1, 2004 mainly to the abolishment of goodwill amortization. As a consequence, goodwill is no longer amortized regularly in the consolidated IFRS financial statements, but tested for impairment on an annual basis or if indicators of an impairment arise. Under Dutch law, goodwill has to be amortized on a straight-line basis over a period not exceeding 20 years. As a result, goodwill amortization and impairment charges are different from IFRS.

Reconciliation of net income from IFRS to Dutch GAAP:

in €m	2004	2003
Net income in the consolidated financial statements according IFRS	1,030	152
Goodwill amortization	(543)	–
Net income in accordance with Dutch GAAP	**487**	**152**

Earnings per share:

in Euro	2004	2003
Basic	0.61	0.19
Diluted	0.61	0.19

Reconciliation of stockholders' equity from IFRS to Dutch GAAP:

in €m	2004	2003
Stockholders' equity in the consolidated financial statements according IFRS	16,973	16,149
Goodwill amortization	(543)	–
Stockholders' equity in accordance with Dutch GAAP	**16,430**	**16,149**

1.2 Financial statements (continued)

Notes to the consolidated financial statements (Dutch GAAP)

4. Other operating expenses/Intangible assets

See note 7 and 11 to the consolidated financial statements based on IFRS.

The movement in intangible assets are detailed as follows:

In €m	Goodwill	Other Intangible Assets	Total
Balance at December 31, 2003	9,372	322	9,694
Additions	83	364	447
Amortization	(592)	(137)	(729)
Disposals	–	(7)	(7)
Others	5	6	11
Balance at December 31, 2004	**8,868**	**548**	**9,416**

The difference of €592 million in 2004 between IFRS and Dutch GAAP relates to the amortization of goodwill and is caused by the fact the goodwill is no longer amortized under IFRS.

5. Income from investments/Investments in associates

See note 9 and 13 to the consolidated financial statements based on IFRS.

The movement in investments in associates are detailed as follows:

In €m	Investments in associates
Balance at December 31, 2003	1,640
Additions	87
Amortization goodwill	(26)
Others/Reclassifications	11
Balance at December 31, 2004	**1,712**

The difference of €26 million in 2004 between IFRS and Dutch GAAP relates to the amortization of goodwill in associated companies accounted for using the equity method.

6. Minority interests

The difference of €75 million in 2004 between IFRS and Dutch GAAP relates to the amortization of goodwill and reflects the third-party share.

1.2 Financial statements (continued)

1.2.2.2 EADS NV financial statements (Dutch GAAP)

EADS NV Balance Sheet (Dutch GAAP)

in millions of €	Note	At 31st December 2004	At 31st December 2003
Assets			
Goodwill	2	4,091	4,354
Financial assets	2	10,927	9,647
Loans	2	695	–
Fixed assets		**15,713**	**14,001**
Receivables and other assets	3	2,248	3,778
Securities	4	304	307
Cash and cash equivalents	4	6,985	6,117
Non-fixed assets		**9,537**	**10,202**
Total assets		**25,250**	**24,203**
Liabilities and stockholders' equity			
Capital stock		810	813
General reserves		15,620	15,336
Stockholders' equity	5	**16,430**	**16,149**
Financial liabilities		309	194
Other liabilities	6	8,511	7,860
Liabilities		**8,820**	**8,054**
Total liabilities and stockholders' equity		**25,250**	**24,203**

EADS NV Income Statement (Dutch GAAP)

in millions of euros	2004	2003
Income from investments	763	398
Other results	(276)	(246)
Net result	**487**	**152**

1.2 Financial statements (continued)

Notes to EADS N.V. financial statements (Dutch GAAP)

1. General

EADS N.V., having its legal seat in Amsterdam, the Netherlands, is engaged in the holding, coordinating and managing of 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 the aeronautic, defence, space and/or communication industry or activities that are complementary, supportive or ancillary thereto.

The description of the company's activities and the group structure, as included in the notes to the consolidated IFRS financial statements, also apply to the company statutory financial statements. In accordance with article 402 Book 2 of the Dutch Civil Code the statement of income is presented in abbreviated form.

2. Fixed assets

The movement in fixed assets are detailed as follows:

in €m	Goodwill	Financial Assets Participating Interests	Loans	Total
Balance at December 31, 2003	**4,354**	**9,647**	**–**	**14,001**
Additions	–	683	695	1,378
Amortization	(263)	–	–	(263)
Net income from investments	–	763	–	763
Fair value adjustments financial instruments/ others	–	142	–	142
Dividends received	–	(308)	–	(308)
Balance at December 31, 2004	**4,091**	**10,927**	**695**	**15,713**

The fair value adjustments on financial instruments/others reflect mainly the impact in the Other Comprehensive Income in the participating interests related to the application of IAS 39.

The loans are provided to affiliated companies.

3. Receivables and other assets

in €m	2004	2003
Receivables from affiliated companies	2,104	3,561
Receivables from related companies	42	57
Other assets	102	160
Total receivables and other assets	**2,248**	**3,778**

The receivables from affiliated companies include mainly receivables in connection with the cash pooling in EADS N.V.

All receivables and other assets mature within one year.

4. Securities, Cash and cash equivalents

The securities comprise mainly Available-for-Sale Securities.

Short term securities which are subject to an insignificant risk of changes in value are classified to line item "Cash and cash equivalents".

5. Stockholders' equity

in €m	Capital stock	Share premium from contributions	Share premium from cash	Accumulated other comprehensive income	Treasury shares	Legal reserves	Retained earnings	Total equity
Balance at December 31, 2002	**811**	**8,459**	**1,079**	**2,452**	**(156)**	**280**	**(160)**	**12,765**
Capital increase	2		19					21
Net income							152	152
Cash distribution			(240)					(240)
Transfer to legal reserve						190	(190)	
Repurchase treasury shares					(31)			(31)
Other comprehensive income				3,482				3,482
Balance at December 31, 2003	**813**	**8,459**	**858**	**5,934**	**(187)**	**470**	**(198)**	**16,149**
Capital increase	2		41					43
Net income							487	487
Cash distribution			(320)					(320)
Transfer to legal reserve						181	(181)	
Repurchase treasury shares					(81)			(81)
Cancellation shares	(5)		(86)		91			
Other comprehensive income				152			–	152
(1) Balance at December 31, 2004	**810**	**8,459**	**493**	**6,086**	**(177)**	**651**	**108**	**16,430**

For further information to the Stockholders' equity, please see note 18 of the consolidated IFRS financial statements.

The cumulative foreign exchange translation adjustments are part of the accumulated other comprehensive income.

The accumulated other comprehensive income relates mainly to the fair value adjustments of financial instruments in relation to participating interests.

The legal reserves as required by Dutch law are related to EADS' share in the undistributed results from investments for €482 million (2003: €466 million) and the internally generated capitalized development costs of €169 million (2003: €4 million).

6. Other liabilities

in €m	2004	2003
Liabilities to affiliated companies	7,745	6,999
Liabilities to related companies	680	765
Other liabilities	86	96
Total	**8,511**	**7,860**

The liabilities to affiliated companies include mainly liabilities in connection with the cash pooling in EADS N.V.

1.2 Financial statements (continued)

Notes to EADS N.V. financial statements (Dutch GAAP)

7. Commitments and contingent liabilities

Guarantees totaling €25 million have been given on behalf of other group companies.

8. Remuneration

The total remuneration and related costs of the members of the Board of Directors and former directors in 2004 can be specified as follows:

in Euro	2004	2003
Fixum	3,949,425	3,981,000
Bonus (related to reporting period)	4,549,050	3,821,930
Fees	290,000	205,000
	8,788,475	8,007,930

The cash remuneration of the individual members of the Board of Directors was as follows:

2004	Fixum in Euro	Bonus in Euro related to 2004	Fees in Euro	Total in Euro
Directors				
Manfred Bischoff	60,000	200,000	110,000	370,000
Arnaud Lagardère	40,000	200,000	80,000	320,000
Philippe Camus	1,093,942	1,096,345	–	2,190,287
Rainer Hertrich	1,093,942	1,096,345	–	2,190,287
Noël Forgeard	1,079,153	1,119,751	–	2,198,904
Hans-Peter Ring	462,388	482,440	–	944,828
François David	–	66,667	20,000	86,667
Rüdiger Grube	–	66,667	35,000	101,667
Michael Rogowski	30,000	100,000	20,000	150,000
Former directors				
Eckhard Cordes	30,000	33,334	10,000	73,334
Pedro Ferreras	30,000	54,167	15,000	99,167
Jean-René Fourtou	30,000	33,334	–	63,334
Total:	3,949,425	4,549,050	290,000	8,788,475

2003	Fixum in Euro	Bonus in Euro related to 2003	Fees in Euro	Total in Euro
Directors				
Manfred Bischoff	60,000	153,000	70,000	283,000
Arnaud Lagardère[1]	–	102,000	40,000	142,000
Philippe Camus	1,114,500	916,309	–	2,030,809
Rainer Hertrich	1,114,500	916,309	–	2,030,809
Noël Forgeard	1,097,000	1,067,949	–	2,164,949
Hans-Peter Ring	310,000	322,113	–	632,113
Eckhard Cordes	30,000	76,500	25,000	131,500
Pedro Ferreras	30,000	76,500	25,000	131,500
Jean-René Fourtou	30,000	76,500	10,000	116,500
Michael Rogowski	30,000	76,500	25,000	131,500
Former directors				
Jean-Luc Lagardère[1]	60,000	38,250	10,000	108,250
Axel Arendt	105,000	–	–	105,000
Total:	3,981,000	3,821,930	205,000	8,007,930

1 The bonuses for Mr. Jean-Luc Lagardère and Mr. Arnaud Lagardère are included pro rata in accordance with their membership in the Board of Directors.

1.2 Financial statements (continued)

Notes to EADS N.V. financial statements (Dutch GAAP)

The table below gives an overview of the interests of the members of the Board of Directors under the stock options plans of EADS:

	As of Jan. 1 2004	Number of options granted during 2004	As of Dec. 31 2004	Exercise price Euro	Expiry date
Philippe Camus	135,000	–	135,000	20.90	July 8, 2010
	135,000	–	135,000	24.66	July 12, 2011
	135,000	–	135,000	16.96	August 8, 2012
	135,000	–	135,000	15.65	October 9, 2013
		135,000	135,000	24.32	October 7, 2014
Rainer Hertrich	135,000	–	135,000	20.90	July 8, 2010
	135,000	–	135,000	24.66	July 12, 2011
	135,000		135,000	16.96	August 8, 2012
	135,000	–	135,000	15.65	October 9, 2013
		135,000	135,000	24.32	October 7, 2014
Noël Forgeard	110,000	–	110,000	20.90	July 8, 2010
	88,000	–	88,000	24.66	July 12, 2011
	108,000	–	108,000	16.96	August 8, 2012
	108,000	–	108,000	15.65	October 9, 2013
		108,000	108,000	24.32	October 7, 2014
Hans-Peter Ring	10,000	–	10,000	20.90	July 8, 2010
	28,000	–	28,000	24.66	July 12, 2011
	37,000	–	37,000	16.96	August 8, 2012
	50,000	–	50,000	15.65	October 9, 2013
		50,000	50,000	24.32	October 7, 2014
Total:	1,619,000	428,000	2,047,000		

The value of the stock options granted to the Executive members of the Board of Directors is €15 million. To the other members of the Executive Committee and to the Group's senior management stock options with a value of €233 million are granted. The expected value of the performance of stock options is based on the Black-Scholes Model, which is in line with international accounting regulations. For further information, please see note 27 of the consolidated IFRS financial statements.

The pension benefit obligation for the Executive members of the Board of Directors is as follows:

The Executive Board members have pension promises as part of their employment agreements. The general policy is to give them annual pension of 50% of their annual base salary after five years in the Executive Committee of EADS at the age of 60 to 65. In case of the CEO's, the retirement age is 60. This obligation will increase to 60% after ten years of service in the EADS Executive Committee.

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

The amounts reported for the Executive Board members are free of benefits in kind they are entitled to as well as the national social and tax impact.

Executives Board members are entitled to a company car. Mr. Rainer Hertrich benefits also from a free accommodation in France.

EADS has not provided any loans to/advances to/guarantees on behalf of (retired) directors.

1.2 Financial statements (continued)
Supplementary Information

1. Auditors' report
Introduction
We have audited the accompanying financial statements of EADS N.V., Amsterdam for the year 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope
We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion, the financial statements give a true and fair view of the company's financial position as of December 31, 2004 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Rotterdam, March 8, 2005
KPMG Accountants N.V.

Amsterdam, March 8, 2005
Ernst & Young Accountants

2. Appropriation of result
Articles 30 and 31 of the Articles of Association provide that the board of directors shall determine which part of the result shall be attributed to the reserves. The general meeting of shareholders may dispose of a reserve only upon a proposal of the Board of Directors and to the extent it is permitted by law and the Articles of Association. Dividends may only be paid after adoption of the annual accounts from which it appears that the shareholders' equity of the company is more than the amount of the issued and paid-in part of the capital increased by the reserves that must be maintained by law.

It will be proposed at the Annual General Meeting of Shareholders that the net profit of €487 million as shown in the profit and loss statement for the financial year 2004 is to be added to retained earnings and that a payment of a gross amount of €0,50 per share shall be made to the shareholders from distributable reserves.

3. Subsequent Events
For further information please see note 33 of the consolidated IFRS financial statements.

1.3 Statutory Auditors' Fees

Services of Statutory Auditors and Members of their Network rendered to the Group for the financial years 2004 and 2003:

	KPMG Accountants N.V.				Ernst & Young Accountants			
	2004		2003		2004		2003	
	Amount (in K €)	%	Amount (in K €)	%	Amount (in K €)	%	Amount (in K €)	%
Audit								
Audit process, certification, examination of individual and consolidated accounts	5,073	57.3	4,514	65.1	4,795	70.0	4,263	64.2
Additional tasks	3,048	34.5	2,133	30.7	1,747	25.5	1,108	16.7
Sub-total	**8,121**	**91.8**	**6,647**	**95.8**	**6,542**	**95.5**	**5,371**	**80.9**
Other services as relevant								
Legal, tax, employment	729	8.2	294	4.2	294	4.3	1,105	16.7
Information technology	–	–	–	–	–	–	28	0.4
Other (to be specified if >10% of the fees for the audit)	–	–	–	–	13	0.2	132	2.0
Sub-total	**729**	**8.2**	**294**	**4.2**	**307**	**4.5**	**1,265**	**19.1**
Total	**8,850**	**100.0**	**6,941**	**100.0**	**6,849**	**100.0**	**6,636**	**100.0**

1.4 Risk Factors

EADS is subject to many risks and uncertainties that may affect its financial performance. The business, financial condition or results of operations of EADS could be materially adversely affected by the risks described below. These risks are not the only ones facing EADS. Additional risks not presently known to EADS or that it currently deems immaterial may also impair its business operations.

1.4.1 Market Risks

Exposure to Foreign Currencies

EADS' revenues are mainly denominated in U.S. dollars, while the major portion of its costs is incurred in Euro and Pounds Sterling. Consequently, to the extent EADS were not to use financial instruments to cover its exposure resulting from this foreign currency mismatch, its profits would be affected by changes in the Euro-U.S. dollar and Pound Sterling-U.S. dollar exchange rates. EADS has, therefore, implemented an exchange rate strategy in order to manage and minimize such exposure. In order to secure the rates at which U.S. dollar revenues (arising primarily at Airbus and in the commercial satellite business) are converted into Euro or Pounds Sterling, EADS manages a long term hedging portfolio. There are complexities inherent in determining whether and when foreign exchange rate exposure of EADS will materialize, in particular given the possibility of unpredictable revenue variations arising from order cancellations and postponements. Furthermore, as a significant portion of EADS' foreign currency exposure is hedged through contractual arrangements with third parties, EADS is exposed to the risk of non-performance by its approximately 40 hedging counterparties. See "1.1.8 Management of Market Risks – Exchange Rate Risk". No assurances may be given that EADS' exchange rate hedging strategy will protect it fully from significant changes in the exchange rate of the U.S. dollar to the Euro and the Pound Sterling and that such changes will not affect its results of operation and financial condition.

EADS' consolidated revenues, costs, assets and liabilities denominated in currencies other than the Euro are translated into the Euro for the purposes of compiling its financial statements. As EADS' exchange rate hedging strategy aims to cover its cash flows, and, to a large extent, EBIT*, changes in the value of these currencies relative to the Euro will have an effect on the Euro value of EADS' reported revenues, costs, assets and liabilities and, to a lesser extent, EBIT*.

Currency exchange rate fluctuations in those currencies other than the U.S. dollar in which EADS incurs its principal manufacturing expenses (mainly the Euro) may have the effect of distorting competition between EADS and competitors whose costs are incurred in other currencies. This is particularly true with respect to fluctuations relative to the U.S. dollar, as many of EADS' products and those of its competitors (e.g., in the defence export market) are priced in U.S. dollars. EADS' ability to compete with competitors may be eroded to the extent that any of EADS' principal currencies appreciates in value against the principal currencies of such competitors.

See "1.1.4 Measurement of Management's Performance – EBIT* Performance by Division – Hedging Impact on EBIT*" and "1.1.8 Management of Market Risks – Exchange Rate Risk" for quantitative information about EADS' exchange rate risk and a discussion of its foreign currency hedging policy. See "1.1.3 Critical Accounting Considerations, Policies and Estimates – Accounting for Hedged Foreign Exchange Transactions in the Financial Statements" for a summary of EADS' accounting treatment of foreign currency hedging transactions.

Other Fluctuations in Financial Markets Risk

EADS is exposed not only to currency exchange rate risk, but also to interest rate, credit, liquidity and other financial market risks. For a discussion of these risks and the management of them by EADS, see "1.1.8 Management of Market Risks".

Exposure to Sales Financing Risk

In support of sales, EADS (primarily through Airbus and ATR) may agree to participate in the financing of customers. As a result, EADS has a significant portfolio of leases and other financing arrangements with airlines. The risks arising from EADS' sales financing activities may be classified into two categories: (i) credit risk, which concerns the customer's ability to perform its obligations under a financing arrangement and (ii) aircraft value risk, which primarily relates to unexpected decreases in the future value of aircraft. Measures taken by EADS to mitigate these risks include optimised financing and legal structures, diversification over a number of aircraft and customers, credit analysis of financing counterparties, provisioning for the credit and asset value exposure, and transfers of exposure to third parties. No assurances may be given that these measures will protect EADS fully from defaults by its customers or significant decreases in the value of the financed aircraft in the resale market.

EADS' sales financing arrangements expose it to aircraft value risk, because it retains collateral interests in aircraft for the purpose of securing customers' performance of their financial obligations to EADS, and because it guarantees part of the market value of certain aircraft during limited periods after their delivery to customers. Under adverse market conditions,

1.4 Risk Factors (continued)

the market for used aircraft could become illiquid and the market value of used aircraft could significantly decrease below projected amounts. In the event of a financing customer default at a time when the market value for a used aircraft has unexpectedly decreased, EADS would be exposed to the difference between the outstanding loan amount and the market value of the aircraft. Similarly, if an unexpected decrease in the market value of a given aircraft coincided with the exercise window of an asset value guarantee ("**AVG**") with respect to that aircraft, EADS would be exposed to losing as much as the difference between the market value of such aircraft and the AVG amount. No assurances may be given that the provisions taken by EADS will be sufficient to cover these potential shortfalls. See "1.1.8 Management of Market Risks – Sales Financing Risk".

Through the Airbus Asset Management Division or as a result of past financing transactions, EADS is the owner of used aircraft, exposing it directly to fluctuations in the market value of these used aircraft.

1.4.2 Business-Related Risks

Aircraft Market Cyclicality

In 2004, the combined revenues generated from Airbus and ATR represented approximately two thirds of EADS' consolidated revenues. Historically, the commercial passenger aircraft market has shown cyclical trends due in part to the sensitivity of passenger demand in the air travel market to growth in gross domestic product ("**GDP**"). The growth in EADS' commercial aircraft activities has consequently been correlated to growth in GDP. Other factors, however, play an important role, such as (i) the average age and technical obsolescence of the fleet relative to new aircraft, (ii) the number and characteristics of aircraft taken out of service and parked pending potential return into service, (iii) passenger load factors, (iv) airline pricing policies, (v) airline financial health and (vi) deregulation.

EADS and the Airbus Division have implemented a flexible manufacturing organisation that is intended to help them adapt to cyclical market changes in demand. See "Part 2/1.1.2 Airbus – Market". Nevertheless, EADS expects that the market for passenger aircraft will continue to be cyclical and downturns in broad economic trends, such as those currently being experienced, may have a negative effect on its future results of operation and financial condition.

Impact of Terrorism, Epidemics and Catastrophic Events On Aircraft Market

As the terrorist attacks in New York and Madrid, and the spread of the SARS virus have demonstrated, terrorism and epidemics may negatively affect public perception of air travel safety and comfort and the demand for air travel and commercial aircraft. Furthermore, major airplane crashes may have a negative effect on the public's or regulators' perceptions of the safety of a given class of aircraft, form of design, or airline. As a consequence of terrorism, epidemics and other catastrophic events, an airline may be confronted with sudden reduced demand for air travel and be compelled to take costly security and safety measures. In response to such events, and the resulting negative impact on the airline industry or particular airlines, EADS may suffer from a decline in demand for all or certain types of its aircraft and EADS' customers may postpone delivery of new aircraft or cancel orders.

Dependence on Defence Spending

In 2004, approximately 24% of EADS' consolidated revenues was derived from defence spending. In any single market, defence spending depends on a complex mix of geopolitical considerations, budgetary constraints and the ability of the armed forces to meet specific threats and perform certain missions. Defence spending may be subject to significant fluctuations from year to year and country to country. Adverse economic and political conditions, as well as downturns in broad economic trends in EADS' defence markets, may have a negative effect on EADS' future results of operations and financial condition.

In the case where several countries undertake to enter together into defence procurement contracts, economic, political and/or budgetary constraints in any one of these countries may have a negative effect on the ability of EADS to enter into or perform such contracts.

Emergence of Public-Private Partnerships and Private Finance Initiatives

Defence customers, particularly in the U.K., increasingly request proposals and grant contracts under schemes known as public-private partnerships ("**PPPs**") or private finance initiatives ("**PFIs**"). PPPs and PFIs differ substantially from traditional defence equipment sales, as they often incorporate elements such as:

– the provision of extensive operational services over the life of the equipment,

- continued ownership and financing of the equipment by a party other than the customer, such as the equipment provider,
- mandatory compliance with specific customer requirements pertaining to public accounting or government procurement regulations; and
- provisions allowing for the service provider to seek out additional customers for unused capacity.

EADS is party to PPP and PFI contracts, for example through Paradigm with Skynet 5 and related telecommunications services, and involved in additional PFI proposals, such as the Airtanker (FSTA) project. One of the complexities presented by PFIs lies in the allocation of risks and the timing thereof among different parties over the lifetime of the project.

Given that participation in PPPs and PFIs is new for EADS, there can be no assurances of the extent to which EADS will efficiently and effectively (i) compete for future PFI or PPP programmes, (ii) administer the services contemplated under the contracts, (iii) finance the acquisition of the equipment and the ongoing provision of services related thereto, or (iv) access the markets for the commercialisation of excess capacity. Nor can EADS be certain that it will not encounter unexpected political, budgetary, regulatory or competitive risks over the long duration of PPP and PFI programmes.

Competition and Market Access

Most of EADS' businesses are subject to significant competition, in particular in the commercial aircraft market, where, in the past, Airbus has been affected by downward price pressure resulting from such competition. EADS believes that some of the underlying causes of such price competition have been mitigated by restructuring in the aerospace and defence industry. However, the recent weakening of demand has led to greater leverage for certain customers to encourage competition in respect of a variety of issues, including price and payment terms. No assurance can be given that competition may not intensify, particularly in the context of a prolonged downturn.

In addition, the contracts for many aerospace and defence products are awarded, implicitly or explicitly, on the basis of home country preference. Although EADS constitutes a multinational combination broadening a domestic market constituency, it may remain at a competitive disadvantage in certain countries, especially outside of Europe, relative to local contractors for certain products. The strategic importance and political sensitivity attached to the aerospace and defence industries means that political considerations will persist for many products for the foreseeable future.

Availability of Government Financing

In prior years, EADS and its principal competitors have benefited from government financing of product research and development and EADS has recently received financing from certain governments in relation to the A380 commercial aircraft program. No assurances can be given that financing will continue to be made available for future projects. Since 1992, the E.U. and the U.S. have operated under an agreement that sets the terms and conditions of financial support that governments may provide to civil aircraft manufacturers. The unilateral withdrawal from the 1992 agreement by the U.S. government in late 2004 has led to a new round of negotiations between the EU and the U.S. The terms and conditions of any new agreement may limit access by Airbus to risk-sharing-funds for large projects or establish an unfavorable balance of access to government funds by EADS as compared to its U.S. competitors.

Technologically Advanced Products and Services

EADS develops and manufactures products that are, for the most part, technologically advanced and, sometimes, novel. Most of EADS' products must function under demanding operating conditions. Even though EADS believes it employs sophisticated design, manufacturing and testing practices, there can be no assurance that EADS' products will be successfully developed or operated or that they will be developed or will perform as intended.

Certain of EADS' contracts require it to forfeit part of its expected profit, to receive reduced payments, to provide a replacement launch or other product or service, or to reduce the price of subsequent sales to the same customer if its products fail to be delivered on time or to perform adequately. EADS has commitments under telecommunication satellite manufacturing contracts that were signed during a period when tight delivery schedules were provided in these contracts, but market practice allowed extension of schedules to meet ever more complex technological requirements. No assurances can be given that performance penalties or contract cancellations will not be imposed should EADS fail to meet delivery schedules or other measures of contract performance.

EADS, like other organisations, has experienced occasional product failures and other problems, including with respect to certain of its launch vehicles and satellites. There can be no assurances that such problems will not occur in the future. In addition to any costs resulting from product warranties, contract performance or required remedial action, such failures may result in increased costs or loss of revenues and may also

1.4 Risk Factors (continued)

have a significant adverse effect on the competitive reputation of EADS' products. See "– Legal Risks – Product Liability and Warranty Claims".

Major Research and Development Programmes

The business environment in many of EADS' principal operating business segments is characterized by extensive research and development costs requiring significant up-front investment. Business plans underlying such investment contemplate a long payback period before this investment is recouped. There can be no assurances that the commercial, technical and market assumptions underlying such business plans will be met, and consequently, the payback period or returns contemplated therein achieved.

U.K. Pension Commitments

EADS has several common investments with BAE SYSTEMS, of which the most significant in terms of employees are Airbus and MBDA. In respect of each investment, for so long as BAE SYSTEMS remains a shareholder, U.K. employees may stay in the BAE SYSTEMS pensions schemes, which currently qualify as defined benefit plans. BAE SYSTEMS has announced a shortfall of £2,099 million in post retirement pension assets when compared with the respective liabilities. This amount would have been recognised in BAE SYSTEMS' books had the new U.K. accounting standard FRS 17 already been implemented. As participants in the BAE SYSTEMS schemes, EADS' investments are potentially affected by the shortfall. However, the agreements between EADS and BAE SYSTEMS have the effect of capping the contributions that the investment has to make to the pension scheme for a certain period of time (e.g., until 2011 for Airbus and until 2008 for MBDA). Any additional contribution would be paid by BAE SYSTEMS. EADS is therefore not exposed to increased contribution payments resulting from the pension underfunding during the period of the contribution caps. At present, EADS has only limited information about how the underfunding could impact the investments after the period of contribution caps has expired.

On 1st November 2003 EADS established a new pension scheme for Astrium U.K. The defined benefit obligation of the new plan, calculated under the assumption that all employees choose to transfer their benefits, amounts to £117 million. Plan assets are recorded at £65 million, resulting in a net liability of £52 million which covers the maximum risk associated with the creation of the new plan. See "Notes to the IFRS Consolidated Financial Statements – Note 19(b): Provisions for Retirement Plans".

1.4.3 Legal Risks

Dependence On Joint Ventures and Minority Holdings

EADS generates a substantial proportion of its revenues through various consortia, joint ventures and equity holdings and believes that its alliances and partnerships are a source of competitive advantage. These arrangements include primarily:

- the Eurofighter consortium;
- two principal joint ventures: MBDA and ATR;
- majority interests: (a) Airbus, (b) Dornier GmbH; and (c) LFK; and
- investment in associates: Dassault Aviation.

The formation of partnerships and alliances with other market players is an integral strategy of EADS and the proportion of sales generated from consortia, joint ventures and equity holdings may rise in future years. This strategy may from time to time lead to changes in the organisational structure, or realignment in the control, of EADS' existing joint ventures.

EADS exercises varying and evolving degrees of control in the consortia, joint ventures and equity holdings in which it participates. While EADS seeks to participate only in ventures in which its interests are aligned with those of its partners, the risk of disagreement or deadlock is inherent in a jointly controlled entity, particularly in those entities that require the unanimous consent of all members with regard to major decisions and specify limited exit rights. The other parties in these entities may also be competitors of EADS, and thus may have interests which differ from those of EADS.

In addition, in those holdings in which EADS is a minority partner or shareholder, EADS' access to the entity's books and records, and as a consequence, EADS' knowledge of the entity's operations and results, is generally limited as compared to entities in which EADS is a majority holder or is involved in the day-to-day management.

Product Liability and Warranty Claims

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

Export Controls and Other Regulations

The export market is a significant market for EADS. In addition, many of the products EADS designs and manufactures for military use are considered to be of national strategic interest. Consequently, the export of such products outside of EADS' domestic markets may be restricted or subject to licensing and export controls, notably by the U.K., France, Germany and Spain, where EADS carries out its principal military activities as well as by other countries where suppliers come from, notably, the U.S. There can be no assurance (i) that the export controls to which EADS is subject will not become more restrictive, (ii) that new generations of EADS products will not also be subject to similar or more stringent controls or (iii) that geopolitical factors will not make it impossible to obtain export licenses for one or more clients or constrain EADS' ability to perform under previously signed contracts. Reduced access to military export markets may have a material adverse effect on EADS' business, financial condition and results of operations.

EADS is also subject to a variety of other governmental regulations that may adversely affect its business and financial condition, including among others, regulations relating to the protection of the environment, the use of its products, labour practices and dealings with foreign officials. In addition, EADS' ability to market new products and enter new markets may be dependent on obtaining government certifications and approvals in a timely manner.

Exceptional Items and Litigation

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.

In its defence against an arbitration proceeding initiated by Thales, EADS (more specifically Euromissile GIE) was awarded at the end of 2002 damages on the basis of its counterclaim, the principal amount of which totals €108 million. In this context, damages were paid to Euromissile on 17th February 2003 and Thales filed an appeal for annulment of the arbitration decision. On 18th November 2004 the Paris Court of Appeal upheld the arbitration award. Since this decision has not been appealed to the French Supreme Court, this litigation is now closed. Consequently, the relating provision was released in 2004.

DaimlerChrysler has become a party to judicial and arbitration proceedings with one of the Dornier family shareholders, a minority shareholder of Dornier GmbH, an indirect subsidiary of EADS. These proceedings concern claims on alleged acquisition rights for a price below market value regarding a part of Dornier GmbH's real estate in Oberpfaffenhofen and could have an economic effect on Dornier GmbH.

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.

Following its unilateral withdrawal from the 1992 EU-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. Consequently, there is a risk that the legal proceedings before the WTO may recommence. Although EADS is not a direct party to this trade dispute, the outcome of any eventual agreement or WTO decision will be relevant to EADS.

EADS is not aware of any other exceptional items or pending or threatened legal or arbitration proceedings that may have, or may have had in a recent period, a material adverse effect on the financial position, the activities or the results of 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 "Notes to the IFRS Consolidated Financial Statements – Note 19 (d): 'Other Provisions' ".

1.4.4 Industrial and Environmental Risks

Together with other companies in the principal industries in which it operates, EADS is subject to numerous E.U., national, regional and local environmental laws and regulations concerning emissions into the environment, discharges to

1.4 Risk Factors (continued)

surface and subsurface water and the disposal and treatment of waste materials. EADS believes that its current operations are in substantial compliance with all applicable environmental regulations. EADS believes that it is currently capable of satisfying the stricter environmental standards for the future contemplated by current laws or regulations, including increasingly stringent environmental product quality standards that will be implemented over the next few years, without incurring significant capital expenditure. However, there can be no assurance that increased capital expenditure and operating costs resulting from future environmental regulations will not adversely affect the results of EADS' operations and its financial condition.

For more information, please see "Part 2/2.3.3 Environmental Care".

1.4.5 Insurance

EADS Insurance Risk Management ("**IRM**"), centralized 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 Business Units, 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;
- 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 and Business Interruption Programme. The captive is sufficiently capitalized and protected so as to ensure its ability to reimburse claims without limiting the scope of coverage of the original insurance policies.

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 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.

2.1 Management and Control

2.1.1 Board of Directors, Chairmen and Chief Executive Officers

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

The Board of Directors consists of a maximum of eleven members appointed and removed by the shareholders' meeting. The Board of Directors adopted rules governing its internal affairs (the "**Rules**") at a Board of Directors' meeting held on 7th July 2000. The Rules were amended at a Board of Directors' meeting held on 5th December 2003 to take into account recommendations for changes to corporate governance. The Rules specify the composition, the role and the key responsibilities of the Board of Directors, and also determine the manner of appointment and the responsibilities of the Chairmen and the Chief Executive Officers. The Rules also specify the creation of two committees (the Audit and the Remuneration and Nomination Committees) and specify their composition, role and operating rules.

The Board of Directors has also adopted specific Insider Trading Rules, which restrict its members from trading in EADS shares in certain circumstances (for more information, please see "Part 2/3.1.3 Governing Law – Dutch Regulations").

The parties to the Participation Agreement have agreed that the voting rights attached to the Indirect EADS Shares shall be exercised by EADS Participations B.V. to ensure that the Board of Directors of EADS comprises the Directors of EADS Participations B.V. and two additional independent Directors who are not officers, directors, employees or agents of or otherwise have no significant commercial or professional connection either with the DaimlerChrysler, SOGEPA or Lagardère Groups or the French State. Pursuant to the Participation Agreement, the Board of Directors comprises ten members of whom:

- four nominated by DaimlerChrysler;
- four nominated by SOGEADE; and
- two independent Directors, one nominated by DaimlerChrysler and one nominated by SOGEADE.

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 decided to propose to the shareholders' meeting of EADS to be held on 11th May 2005 to appoint an additional Spanish Director bringing the total number of Directors to eleven.

Pursuant to the Articles of Association, each member of the first Board of Directors holds office for a term expiring at the annual general meeting of the Company to be held in 2005. Members of the Board of Directors will be elected at such meeting and at each fifth annual general meeting thereafter.

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

The Board of Directors appointed two Chairmen, one chosen from the DaimlerChrysler-nominated Directors and one chosen from the SOGEADE-nominated Directors.

The Chairmen ensure the smooth functioning of the Board of Directors in particular with respect to its relations with the Chief Executive Officers whose efforts they support with regard to top level strategic discussions with outside partners.

The Board of Directors also appointed two Chief Executive Officers to be responsible for the day-to-day management of the Company, one chosen from the DaimlerChrysler-nominated Directors and one chosen from the SOGEADE-nominated Directors.

The Company is represented by the Board of Directors or by the Chief Executive Officers acting jointly. Furthermore, the Company has granted general powers to each of the Chief Executive Officers, authorizing them to each individually represent the Company.

In the event of a deadlock between the two Chief Executive Officers, the matter shall be referred to the two Chairmen.

The Chief Executive Officers shall not enter into transactions which form part of the key responsibilities of the Board of Directors unless these transactions have been approved by the Board of Directors.

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

- approving any change in the nature and scope of the activities of the Group;
- approving the overall strategy and the strategic plan of the Group;
- approving the business plan and the yearly budget of the Group;
- setting the major performance targets of the Group;
- appointing the members of the Executive Committee (see below) and the Corporate Secretary;

2.1 Management and Control (continued)

- approving proposals for appointments of members of Airbus Shareholders' Committee and Executive Committee and chairmen of the supervisory board (or similar bodies) and the chief executive officers (or equivalent position) of important Group companies and Business Units;
- approving material changes to the organisational structure of the Group;
- approving major investments, projects or product decisions or divestments of the Group contemplated in the business plan with a value exceeding €200 million;
- approving major strategic alliances and cooperations of the Group;
- approving any material decision affecting the ballistic missiles activity of the Group;
- approving matters of shareholder policy, major actions or major announcements to the capital markets; and
- approving other measures and business of fundamental significance for the Group or which involve an abnormal level of risk.

The Board of Directors met seven times during 2004 and was regularly informed of developments through business reports from the Chief Executive Officers, including rolling forecasts as well as strategic and operational plans. The average attendance rate at such meetings was 88%. Topics intensively discussed and operations authorised at these meetings included EADS' strategy, reorganisation processes (such as the continuation of the restructuring of the Divisions Space and Defence and Security), major business issues (such as the A350 launch decision, the Eurofighter Tranche 2 contract, the impact of the U.S. dollar evolution on EADS' business, the review of the EADS UAV programmes and the acquisition of Racal Instruments Defence Group in the U.S.), the approval of operational plans, budgets, hedging policy, remuneration (including a stock option plan and an employee share ownership plan) and the Group's financial results and forecasts. The Board of Directors also dealt with topics regarding personnel and human resources, such as management qualification as well as attracting, retaining and developing high potentials in order to ensure the future quality of EADS' management and the multi-national leadership structure.

Following the changes to EADS' corporate governance decided in 2003 in light of the corporate governance best practices developed in the jurisdictions relevant to EADS, the Board of Directors supervised the implementation of such decisions during the year 2004. Among other matters, the enhancement of shareholders' access to information was addressed through, for example, the setting-up of specific corporate governance pages on EADS' website (such as pages regarding corporate governance principles, Insider Trading Rules and the Rules), available at www.eads.com.

In addition to the Rules, the Board of Directors adopted, in its meeting dated 10th December 2004, internal directors' guidelines (the "**Directors' Guidelines**") in light of corporate governance best practices composed of a Directors' charter (the "**Directors' Charter**") detailing the rights and duties of the members of the Board of Directors, an Audit Committee charter (the "**Audit Committee Charter**") and a Remuneration and Nomination Committee charter (the "**Remuneration and Nomination Charter**") each such charter setting forth the respective committees' enhanced roles.

The Directors' Charter sets out core principles, which bind each and every Director, such as acting in the best interest of the Company and its stakeholders, devoting necessary time and attention to the carrying out of their duties and avoiding any and all conflicts of interest.

At the shareholders' meeting held on 6th May 2004, François David and Rüdiger Grube were appointed members of the Board of Directors as respective successors of Jean-René Fourtou and Eckhard Cordes who both resigned with effect as from the end of such shareholders' meeting. In addition, Pedro Ferreras resigned as member of the Board of Directors with effect as from 12th July 2004.

Philippe Camus and Rainer Hertrich were appointed Directors by the shareholders' meeting of EADS held on 10th May 2000 and Chief Executive Officers at the Board of Directors' meeting held the same day. Manfred Bischoff and Jean-Luc Lagardère were appointed Directors by the shareholders' meeting of EADS held on 19th June 2000 and their appointments became effective on 7th July 2000; they were appointed Chairmen at a meeting held on 7th July 2000. As successor to Jean-Luc Lagardère, Arnaud Lagardère was appointed as one of the Chairmen of the Board of Directors and a member of the Audit and Remuneration and Nomination Committees at a meeting of the Board of Directors held on 28th March 2003 to take immediate effect from the date of his appointment as Director by the general shareholders' meeting of EADS held on 6th May 2003.

2.1 Management and Control (continued)

Each Director shall have one vote, provided that if there is a vacancy on the Board of Directors' in respect of a DaimlerChrysler-nominated Director or a SOGEADE-nominated Director, the DaimlerChrysler-nominated Directors being present or represented at the meeting can jointly exercise the same number of votes that the SOGEADE-nominated Directors who are present or represented at the meeting can exercise and vice versa. All decisions of the Board of Directors require a vote in favour by at least seven Directors voting in person or by proxy.

The quorum for the transaction of business at meetings of the Board of Directors requires the presence of at least one of the SOGEADE-nominated Directors and one of the DaimlerChrysler-nominated Directors.

In the event of a deadlock in the Board of Directors, other than a deadlock giving DaimlerChrysler the right to exercise the put option granted to it by SOGEADE (see "Part 2/3.3.2 Relationships with Principal Shareholders – Put Option"), the matter shall be referred to Arnaud Lagardère (or such person as shall be nominated by Lagardère) as representative of SOGEADE and to the chief executive officer of DaimlerChrysler. In the event that the matter in question, including a deadlock giving DaimlerChrysler the right to exercise the put option (but in this case with the agreement of SOGEPA and DaimlerChrysler) is a matter within the competence of the general meeting of EADS, a resolution on the issue shall be put to the general meeting, with the voting rights of SOGEADE, DaimlerChrysler and SEPI being negated.

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

Composition of the Board of Directors

Name	Age	Term started	Term expires	Principal function in the Group	Principal role outside the Group
Manfred Bischoff	62	2000	2005	Chairman of EADS	DaimlerChrysler Delegate for Aerospace
Arnaud Lagardère	44	2003	2005	Chairman of EADS	General Partner and Chief Executive Officer of Lagardère
Philippe Camus	56	2000	2005	Chief Executive Officer of EADS	Deputy Chairman and Deputy Chief Executive Officer of Arjil Commanditée Arco (General Partner and Chief Executive Officer of Lagardère)
Rainer Hertrich	55	2000	2005	Chief Executive Officer of EADS	President of the German Association of Aerospace Industries, BDLI
Hans Peter Ring	54	2003	2005	CFO of EADS	Member of the Supervisory Board (*Aufsichtsrat*) and Shareholder Committee of M+W Zander – D.I.B Facility Management GmbH.
Noël Forgeard	58	2000	2005	President and Chief Executive Officer of Airbus	Member of the Board of Directors of Arcelor
Louis Gallois	61	2000	2005	Member of the Board of Directors of EADS	President of SNCF
Rüdiger Grube	53	2004	2005	Member of the Board of Directors of EADS	Member of the Management Board of DaimlerChrysler
François David	63	2004	2005	Member of the Board of Directors of EADS	Chairman and Chief Executive Officer of Coface
Michael Rogowski	66	2000	2005	Member of the Board of Directors of EADS	Chairman of the Supervisory Board of J.M Voith AG.

2.1 Management and Control (continued)

Curriculum Vitae and other Mandates and Duties Performed in any Company by the Members of the Board of Directors

Manfred Bischoff. Dr. Manfred Bischoff joined Daimler-Benz AG in 1976. After different assignments in the company, Dr. Bischoff was appointed as the first Chief Financial Officer of Dasa AG – one of the three EADS founding companies – in 1989 and became President and Chief Executive Officer of Dasa AG from 1995 until 2000. Dr. Bischoff was also a member of the Board of Management of DaimlerChrysler from 1995 until the end of 2003, responsible for Aerospace & Industrial Businesses. He is now the DaimlerChrysler Delegate for Aerospace. He holds a master's degree and a PhD (Dr. rer. pol.) in Economics from the University of Heidelberg.

Current mandates in addition to those listed in the chart above are set forth below:

- Chairman of the board of directors of EADS Participations B.V.;
- Chairman of the supervisory board of Dasa AG;
- Chairman of the supervisory board of DCLRH;
- Member of the supervisory board of Bayerische Hypo- und Vereinsbank AG;
- Member of the supervisory board of Fraport AG;
- Member of the supervisory board of Gerling-Konzern Versicherungs-Beteiligungs-AG;
- Member of the supervisory board of Royal KPN N.V.;
- Member of the supervisory board of Lagardère;
- Member of the board of directors of Nortel Networks Corp. and Nortel Networks Ltd; and
- Member of the supervisory board of J.M. Voith AG.

Arnaud Lagardère. Mr. Arnaud Lagardère has been General Partner and Chief Executive Officer of Lagardère since 2003. He began his career in 1986 as General Manager of MMB, the holding company of Hachette and Europe 1. In 1987, he was appointed Vice President of the Supervisory Board of Arjil bank followed by his appointment as Head of emerging activities and electronic media for Matra. In 1994 he became Chief Executive Officer of Grolier Inc. in the U.S. He has been Managing Partner of Lagardère since 1998. In 1999, he was appointed Chief Executive Officer of both Lagardère Media and Lagardère Active. Arnaud Lagardère graduated in Economics from the University of Paris Dauphine.

Current mandates in addition to those listed in the chart above are set forth below:

- Chairman of the board of directors of EADS Participations B.V.;
- Chairman and chief executive officer of Lagardère Active;
- Chairman and chief executive officer of Lagardère Active Broadcast;
- Chairman and chief executive officer of Lagardère Active Broadband;
- Chairman and chief executive officer of Lagardère Thematiques SA;
- Chairman and chief executive officer of Lagardère Images SAS;
- Chairman and chief executive officer of Lagardère SAS;
- Chairman and chief executive officer of Lagardère Media (Hachette SA);
- Chairman and chief executive officer of Lagardère Capital & Management;
- Chairman of Fondation Jean-Luc Lagardère;
- Deputy-chairman of the supervisory board of Banque Arjil & Cie;
- Chairman and chief executive officer of Arjil Commanditée-ARCO;
- Permanent representative of Lagardère Active Publicité to the board of directors of Lagardère Active Radio International;
- Representative of Hachette SA to the management committee of SEDI TV-TEVA;
- Member of the board of directors of Lagardère Ressources;
- Member of the board of directors of LVMH;
- Member of the board of directors of France Télécom;
- Member of the board of directors of Hachette Livre;
- Member of the board of directors of Hachette Distribution Services;
- Member of the board of directors of Fimalac;
- Member of the board of directors of Hachette Filipacchi Médias;
- Member of the supervisory board of Virgin Stores;
- Member of the supervisory board of DaimlerChrysler;
- President of the "Club des enterprises Paris 2012";
- President of the "Association des Amis de Paris Jean Bouin C.A.S.G"; and
- Member of France China Honorary Committee.

2.1 Management and Control (continued)

Philippe Camus. Mr Philippe Camus was previously Chairman of the Management Board of Aerospatiale Matra. In 1982, he joined the general management of the Lagardère Group where he was Chairman of the Finance Committee of the Matra Group until 1992, appointed Chairman and Managing Director of the Finance Committee of the Lagardère Group in 1993, and then Managing Partner of Lagardère in 1998. Mr. Camus is a former student of the *École Normale Supérieure de Paris,* an agrégé in physical sciences and actuarial science and a graduate of the *Institut d'Études Politiques de Paris.*

Current mandates in addition to those listed in the chart above are set forth below:

- Chief executive officer and member of the board of directors of EADS Participations B.V.;
- Chairman of GIFAS – Groupement des Industries Françaises Aéronautiques et Spatiales;
- Permanent representative of Lagardère on the board of directors of Hachette SA;
- Permanent representative of Hachette SA on the board of directors of Hachette Distribution Services;
- President and member of the board of directors of EADS France;
- Member of the board of directors of Dassault Aviation;
- Member of the board of directors of Lagardère Active Broadcast;
- Member of the board of directors of Hachette Filipacchi Médias SA;
- Member of the board of directors of Stichting Administratiekantoor EADS (the "**Foundation**");
- Member of the board of directors of La Provence SA;
- Member of the board of directors of Nice Matin;
- Member of the supervisory board of Editions P. Amaury; and
- Member of the shareholders and remuneration committees of Airbus.

Rainer Hertrich. Mr Rainer Hertrich started his career in 1977 at Messerschmitt-Bölkow-Blohm (MBB). In 1994 he became Senior Vice President for Corporate Controlling of Deutsche Aerospace AG. In 1996, he was appointed Head of Dasa's Aero Engine Business Unit and Chief Executive Officer of Dasa's subsidiary MTU. In 2000 he became President and Chief Executive Officer of Dasa AG. At the end of 2001, he was elected President of BDLI, the German Aerospace Industries Association. Mr. Hertrich studied Business Administration at the Technical University of Berlin and the University of Nuremberg, graduating with a Bachelor of Commerce.

Current mandates in addition to those listed in the chart above are set forth below:

- Head of EADS Aeronautics Division;
- Chief executive officer and member of the board of directors of EADS Participations B.V.;
- President of the German Association of Aerospace Industries, BDLI;
- Chairman of the supervisory board of EADS Deutschland GmbH;
- Chairman of the supervisory board of Elbe Flugzeugwerke GmbH;
- Chairman of the supervisory committee of Eurocopter S.A.S.;
- Chairman of the board of directors of EADS Space B.V.; and
- Chairman of the shareholders committee and member of the remuneration committee of Airbus.

Hans Peter Ring. Mr. Hans Peter Ring began his career at MBB in 1977. In 1987 he was appointed Head of Controlling of the company's Missiles business. Subsequently, he was named Head of Controlling of the Aviation and Defense Division of Dasa AG. From 1992-1995, he was Chief Financial Officer and member of the board of Dornier Luftfahrt, a Dasa AG subsidiary. In 1996, he was appointed Senior Vice President of Controlling of Dasa and subsequently of EADS. Hans Peter Ring was appointed Chief Financial Officer of EADS in 2002. Mr. Hans Peter Ring has a degree in business administration.

Current mandates in addition to those listed in the chart above are set forth below:

- Member of the shareholders committee of Airbus;
- Member of the board of directors of EADS Space B.V.;
- Member of the supervisory board of Eurocopter;
- Member of the supervisory board of Eurocopter Holding;
- Member of the board of directors of EADS CASA;
- Member of the board of directors of EADS North America;
- Member of the advisory board of Deutsche Bank (Region Munich); and
- EADS' representative at the ATR assembly of members.

2.1 Management and Control (continued)

Noël Forgeard. Mr. Forgeard joined Matra in 1987 as Senior Vice President of the Defense and Space activities. In 1992, he was appointed Managing Director of Lagardère and Chief Executive Officer of Matra Hautes Technologies. He joined Airbus Industrie as Managing Director in 1998 and became the first President and Chief Executive Officer of the Airbus integrated company in 2001. He graduated from the *Ecole Polytechnique* and the *Ecole des Mines* in Paris.

Current mandates in addition to those listed in the chart above are set forth below:

- Chairman and chief executive officer of Airbus Holding SA;
- Chairman of the board of directors of Airbus France;
- Chairman of the board of directors of Airbus España, SL;
- Chairman of the supervisory board of Airbus Deutschland GmbH;
- Chairman of the board of directors of Airbus Military, SL;
- Member of the board of directors of Airbus U.K. Ltd;
- Member of the board of directors of EADS CASA;
- Member of the board of directors of *Ecole Polytechnique*; and
- Member of the board of directors of France Galop.

Louis Gallois. Mr. Louis Gallois has been Chairman of SNCF since 1996. From 1972 he worked in various posts for the Ministry of Economy and Finance, the Ministry of Research and Industry and the Ministry of Defense. In 1989 he was nominated Chairman and Chief Executive Officer of SNECMA and subsequently, in 1992 Chairman and Chief Executive Officer of Aerospatiale. He graduated from the *Ecole des Hautes Etudes Commerciales* (HEC) in Economic sciences and is an alumnus of the *Ecole Nationale d'Administration* (ENA).

Current mandates in addition to those listed in the chart above are set forth below:

- Member of the board of directors of Thales; and
- Member of the board of directors of *Ecole Centrale des Arts et Manufactures*.

Rüdiger Grube. Dr. Rüdiger Grube is member of the Board of Management of DaimlerChrysler AG in charge of corporate development since 2002 and additionally profit and loss responsible for Greater China Business since 2004. He started his career in 1989 at MBB. In 1995, he became Director of Corporate Planning and Technology of Deutsche Aerospace AG. In 1996, he was appointed Senior Vice President and Head of Corporate Strategy at Daimler-Benz AG and subsequently of DaimlerChrysler AG. In 2000, he became Senior Vice President for Corporate Development. Mr. Grube holds an engineers' degree in aircraft construction and engineering from the University of Hamburg and a doctorate in industrial science.

Current mandates in addition to those listed in the chart above are set forth below:

- Chairman of the supervisory board of MTU Friedrichshafen GmbH and DaimlerChrysler Off-highway GmbH;
- Chairman of the board of directors of DaimlerChrysler China limited, Beijing;
- Member of the board of directors of Mitsubishi Motors Corporation;
- Member of the board of directors of McLaren Group Ltd; and
- Member of the supervisory board of DaimlerChrysler Services AG.

François David. Mr. François David is Chairman and Chief Executive Officer of Coface, an international credit insurance and credit management service provider since 1994. He started his career in 1969 in the French Ministry of Finance as Civil Administrator at the foreign economic relations department in which he held various responsibilities. In 1986, he was named Director of the Cabinet of the Minister of Foreign Trade. In 1987, he was appointed Director of external economic relations within the Ministry of Economy, Finance and Budget. In 1990, he was named International Managing Director of the Aerospatiale company. Mr. David is an alumnus of the *École Nationale d'Administration*, a graduate of the *Institut d'Études Politiques de Paris*, and he holds a degree in sociology.

Current mandates in addition to those listed in the chart above are set forth below:

- Member of the board of directors of Stichting Administratiekantoor EADS (the "**Foundation**");
- Chairman and chief executive officer of Coface Scrl;
- Chairman of the board of directors of Viscontea Coface (Italy);
- Chairman of the supervisory board of AK Coface (*Allgemeine Kreditversicherung Aktiengesellschaft Coface*) (Germany);
- Member of the board of directors of Rexel;
- Member of the board of directors of Vinci; and
- Member of the board of directors of the association Coface Trade Aid.

2.1 Management and Control (continued)

Michael Rogowski. Dr. Michael Rogowski has been Chairman of the Supervisory Board of J.M. Voith AG since 2000 and was also the President of the Association of German Industry from 2000 to 2004. Dr. Michael Rogowski joined J.M. Voith GmbH in 1974, where he was responsible for human resources as well as materials management. In 1982 he took over responsibility for the power transmission engineering Division and was named Chairman of the Management Board of J.M. Voith GmbH in 1986 and then J.M. Voith AG in 1997. He studied economical engineering and earned a doctorate at the University of Karslruhe in 1969.

Current mandates in addition to those listed in the chart above are set forth below:

- Member of the board of directors of Stichting Administratiekantoor EADS (the "**Foundation**");
- Vice President of the Federation of German Industries, BDI;
- Member of the supervisory board of Deutsche Messe AG;
- Member of the supervisory board of Talanx AG/HDI Versicherung;
- Member of the supervisory board of IKB Deutsche Industrie-Bank AG; and
- Member of the supervisory board of KSB AG.

Mandates of all the members of the Board of Directors shall expire at the general shareholders' meeting of the Company to be held on 11th May 2005. Based upon the nominations of the main EADS shareholders DaimlerChrysler and SOGEADE (Lagardère and French State), the Board of Directors decided on 8th March 2005 to propose at such general shareholders' meeting to reconstitute the Board of Directors by appointing Manfred Bischoff and Arnaud Lagardère (to be designated as Chairmen), Thomas Enders and Noël Forgeard (to be designated as Chief Executive Officers), Jean-Paul Gut and Hans Peter Ring as Executive Directors, Juan Manuel Eguiagaray Ucelay, Louis Gallois and Rüdiger Grube as Non-Executive Directors and Francois David and Michael Rogowski as Independent Directors, each of them for a term of five years ending at the close of the general shareholders' meeting to be held in the year 2010.

The Company has not appointed observers to the Board of Directors. Pursuant to applicable Dutch law, the employees are not entitled to elect a Director. There is no minimum number of shares that must be held by a Director.

Independent Directors

The two independent directors appointed pursuant to the criteria of independence set out above are François David and Michael Rogowski.

Assessment of the Performance of the Board of Directors

Last year's self-evaluation was conducted as from January 2004 by the Chairmen of the Board of Directors, based upon responses of members of the Board of Directors to a questionnaire. The Chairmen jointly evaluated the feedback of the members of Board of Directors and led a discussion of the results at the 5th March 2004 Board of Directors meeting.

The self-evaluation comprised a general assessment of the meetings and processes of the Board of Directors and a review of the activities of the Board of Directors and its Committees in the past year. The questionnaire addressed matters such as the frequency of meetings, the content of discussions and the thoroughness of meeting preparation. The members of the Board of Directors were also asked to consider the functioning and the composition of the Board of Directors, the quality and openness of discussion, the independence of expressed opinions, the ability to build on differing positions and the access to necessary information for the members of the Board of Directors.

The findings of the first self-assessment concluded that the overall performance of the Board of Directors is very satisfactory.

Overall, the quality of the work carried out by the Board of Directors' Committees was also judged very satisfactory. On 5th December 2003, the Board of Directors empowered the Audit Committee and the Remuneration and Nomination Committee with an increased scope of authority in line with the improved corporate governance standards in EADS' home countries.

2.1 Management and Control (continued)

Since the last self-assessment in 2004, which had shown positive results already, further progress has been made by implementing the described improvement measures. Additionally, the meeting attendance for Board of Directors and Remuneration & Nomination Committee meetings has further increased in 2004 compared to the previous year.

Continuous improvement and effectiveness of governance and management of the Group will remain the focus and key success factor of EADS.

2.1.2 Audit Committee

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

The Audit Committee reviews the quarterly, half and full year accounts on the basis of the documents distributed in advance and discussions with the auditors. The Head of accounting and the Chief Financial Officer are invited to meetings of the Audit Committee to answer any question.

The Audit Committee is chaired by Manfred Bischoff and Arnaud Lagardère and also includes Rüdiger Grube and Louis Gallois.

The Audit Committee meets twice a year, or more frequently according to requirements. It met five times during 2004, with a 65% attendance rate, to review the 2003 results as well as the first half-year results for 2004 of the Company. As decided by the Board of Directors on 5th December 2003, the role of the Audit Committee was increased with new tasks such as, in particular, the review of the quarterly financial reports. It also discussed extensively some specific effects with positive impact on EADS' results, which were triggered in particular by the new Airbus set up, as well as influence of currency rates on EADS' business.

2.1.3 Remuneration and Nomination Committee

Pursuant to the Rules, the Remuneration and Nomination Committee makes recommendations to the Board of Directors regarding appointments of the Executive Committee members, the chairmen of the supervisory board (or similar bodies), the chief executive officers (or equivalent positions) of main Group companies and Business Units and the Corporate Secretary, human resources and remuneration related strategy and long-term remuneration plans (including playing a central role in determining and reviewing the variable portion of the remuneration of the members of the Board of Directors and the Executive Committee) and decides the service contracts and other contractual matters in relation to the Board of Directors and Executive Committee members. The rules and responsibilities of the Remuneration and Nomination Committee have been set out in more detail in the Remuneration and Nomination Charter. The Remuneration and Nomination Committee is chaired by Manfred Bischoff and Arnaud Lagardère and also includes Philippe Camus, Rainer Hertrich, Rüdiger Grube and Louis Gallois.

The Remuneration and Nomination Committee meets twice a year, or more frequently according to requirements. It met four times during 2004, with a 96% average attendance rate, to review the compensation policy (including pension schemes), the bonus payments for 2003, the stock option plan and the employee share ownership plan for 2004, and to recommend the appointment of the chief executive officer of EADS Deutschland GmbH and the chief executive officers of EADS Sogerma Services, Military Aircraft and Defence Electronics' Business Units and Eurofighter GmbH. Furthermore, the Remuneration and Nomination Committee made a recommendation to the Board of Directors on the name of a new member of the Airbus Executive Committee.

2.1.4 Executive Committee

The Chief Executive Officers, supported by an Executive Committee (the "**Executive Committee**"), are responsible for managing the day-to-day operations of the Company. The Executive Committee, chaired by the Chief Executive Officers, also comprises the Heads of the major and functional Divisions of the Group. The Executive Committee met eleven times during 2004.

2.1 Management and Control (continued)

The following matters are discussed, amongst others, at the Executive Committee meetings:

- Setting up and control of the implementation of the strategy for EADS businesses;
- Management, organisational and legal structure of the Group;
- Performance level of the Group's businesses and support functions; and
- All business issues, including the operational plan of the Group and its Divisions and Business Units.

The internal organisation of the Executive Committee is defined by the business allocation among the members under the supervision of the Chief Executive Officers. Notwithstanding the joint responsibilities as defined above, each member of the Executive Committee is individually responsible for the management of his portfolio and must abide by decisions taken by the Chief Executive Officers and the Executive Committee, as the case may be.

The Chief Executive Officers endeavour to reach consensus among the members of the Executive Committee on the matters discussed at the Executive Committee meetings. In the event of consensus not being reached, the Chief Executive Officers are entitled to decide the matter. If there is a fundamental or significant disagreement with respect to any undecided matter, the dissenting Executive Committee member may request that the Chief Executive Officers submit such matter to the Chairmen for their opinion.

The term of office for the Executive Committee members is five years.

Composition of the Executive Committee

Name	Age	Term started	Term expires	Principal Occupation
Philippe Camus	56	2000	2005	Chief Executive Officer
Rainer Hertrich	55	2000	2005	Chief Executive Officer
François Auque	48	2000	2005	Chief Executive Officer of Space Division
Ralph Crosby	57	2002	2007	Chairman and Chief Executive Officer of EADS North America
Thomas Enders	46	2000	2005	Head of Defence and Security Systems Division
Francisco Fernández Sáinz	59	2002	2007	Head of Military Transport Aircraft Division
Noël Forgeard	58	2000	2005	President and Chief Executive Officer of Airbus
Jean-Louis Gergorin	58	2000	2005	Head of Strategic Coordination
Jean-Paul Gut	43	2000	2005	Head of EADS International
Gustav Humbert	55	2000	2005	Airbus Chief Operating Officer
Jussi Itävuori	49	2002	2007	Head of Human Resources
Hans Peter Ring	54	2002	2007	Chief Financial Officer

Philippe Camus, Chief Executive Officer
See "2.1.1 Board of Directors, Chairmen and Chief Executive Officers – Curriculum Vitae and other Mandates and Duties Performed in any Company of the Members of the Board of Directors".

Rainer Hertrich, Chief Executive Officer and Head of Aeronautics Division
See "2.1.1 Board of Directors, Chairmen and Chief Executive Officers – Curriculum Vitae and other Mandates and Duties Performed in any Company of the Members of the Board of Directors".

François Auque, Chief Executive Officer of Space Division
Mr. Auque joined Aerospatiale as Chief Financial Officer in 1991, after a career with the Suez Group and the French *Cour des Comptes*. He was executive Vice President finance and strategy of Aerospatiale, Chief Financial Officer and Group Managing Director for satellites and member of the Management Board of Aerospatiale Matra. He graduated from *Ecole des Hautes Etudes Commerciales* (HEC), from *Ecole Nationale d'Administration* (ENA), and from *Institut d'Etudes Politiques* of Paris (IEP).

2.1 Management and Control (continued)

Ralph D. Crosby Jr., Chairman and Chief Executive Officer of EADS North America
Previously, Mr. Crosby was founder and President of the Integrated Systems Sector at Northrop Grumman Corporation, Corporate Vice President and General Manager of the company's Commercial Aircraft Division and of the B-2 Division. He has a Bachelor of Science degree from the U.S. Military Academy, a master's degree in international relations from the Graduate Institute of International Studies in Geneva and in public administration from Harvard University.

Thomas Enders, Head of Defence and Security Systems Division
Mr. Enders joined MBB/Dasa AG in 1991, after various posts in international research institutes, the German Parliament and the Planning Staff of the German Minister of Defense. After several years in the company's marketing sector, he became Corporate Secretary of Dasa AG in 1995. From 1996 he was in charge of Corporate Strategy & Technology and since 2000, he has been the Head of Defence and Security Systems Division. Mr. Enders holds degrees from the University of Bonn and UCLA, California.

Francisco Fernandez Sáinz, Head of Military Transport Aircraft Division
Previously General Manager of Airbus España. Mr. Fernandez Sáinz joined CASA in 1971 as a design engineer, and occupied various positions as Product Engineering Manager (1975), Project Manager (1979), Engineering Development Director of the Technical Directorate (1982), Vice President of Engineering (1984) and Executive Vice President Programs (1997). Mr. Fernandez Sáinz is a graduate of ICADE (Master in Business Administration) and is a Senior Aeronautical Engineer.

Noel Forgeard, Airbus President and Chief Executive Officer
See "2.1.1 Board of Directors, Chairmen and Chief Executive Officers – Curriculum Vitae and other Mandates and Duties Performed in any Company of the Members of the Board of Directors".

Jean-Louis Gergorin, Head of Strategic Coordination
Mr. Gergorin started his career with the French Government, becoming Head of Policy Planning of the French Foreign Ministry and member of the French German Committee on Security and Defence. Then he joined the private sector, holding senior strategic positions at Matra, *Lagardère* and Aerospatiale Matra. He graduated from *Ecole Polytechnique* and *Ecole Nationale d'Administration* (ENA) in Paris and is an alumnus of the Stanford Executive Program.

Jean-Paul Gut, Head of EADS International
Prior to July 2000, Mr. Gut was Executive Chairman of Aerospatiale Matra Lagardère International and Group Managing Director of Defence and Space Transport at Aerospatiale Matra. In March 1998, Jean-Paul Gut was named Director of the *Lagardère* Group Management Board, responsible for International Operations and the High Technology sector. He graduated from the *Institut d'Etudes Politiques* of Paris (IEP), with a master's degree in Economics.

Gustav Humbert, Airbus Chief Operating Officer
Previously a member of the Dasa AG Management Board responsible for the Commercial Aircraft Division, Mr. Humbert joined Messerschmitt-Bölkow-Blohm (MBB) in 1980, and became President and chief executive officer of Daimler Benz Aerospace Airbus GmbH in 1994. He holds a degree in mechanical engineering and production technology from Hanover Technical University as well as a PhD in engineering from the University of Hanover, School of Machinery.

Jussi Itävuori, Head of Human Resources
Mr. Itävuori joined EADS in September 2001. Previously, he worked for KONE Corporation since 1982 and was appointed in 1989 as Head of Human Resources and member of Executive Committee of KONE Elevators. In 1995 he was appointed member of the Executive Committee and Head of Human Resources of KONE Corporation. He served in the Finnish Air Force as a pilot and officer. He has a Master's degree from the Vaasa School of Economics, Finland.

Hans Peter Ring, Chief Financial Officer
See "2.1.1 Board of Directors, Chairmen and Chief Executive Officers – Curriculum Vitae and other Mandates and Duties Performed in any Company of the Members of the Board of Directors".

2.1 Management and Control (continued)

2.1.5 Internal Control and Risk Management Systems

2.1.5.1 Overview

One of Management's fundamental missions is to foster a positive internal control ("**IC**") and risk management ("**RM**") environment at EADS, in line with corporate governance best practices. Recognizing that recent developments in the multi-jurisdictional (Netherlands, France, Germany, Spain) legal and regulatory provisions relevant to EADS require a strategic approach to IC and RM, EADS launched an IC/RM project at the beginning of 2004. The project, coordinated by the EADS finance department, and supported by other Headquarters functions and external consultants, is intended to:

- ensure the Group's compliance with current and expected future regulations;
- enable EADS to manage and minimize business and control risks throughout the Group; and
- identify weaknesses in the Group's existing IC and RM procedures and propose improvements thereto.

Set out below is a description of the Group's IC and RM systems, reflecting the results of the ongoing IC/RM project. No matter how well designed, IC and RM systems have inherent limitations, such as vulnerability to circumvention or management overrides of the controls in place. Consequently, no absolute assurance can be given that EADS' IC and RM procedures are, despite all care and effort, entirely effective.

The Board of Directors has approved this section as part of their overall approval of this document.

Interaction with the EADS Management Process

The Board of Directors has overall responsibility for the Group's IC and RM environment. EADS' Chief Executive Officers (the "**CEOs**" for the purpose of section 2.1.5) and EADS' Chief Financial Officer (the "**CFO**" for the purpose of section 2.1.5) are responsible for ensuring that IC and RM procedures are implemented throughout the Group. In addition, the Audit Committee oversees the Group-wide functioning of IC and RM procedures.

A general management principle of EADS is the delegation of entrepreneurial responsibility and powers to the operational units. Consequently, the day-to-day IC and RM functions are delegated to EADS' Divisions (Airbus, MTA, DS, Aeronautics, Space) and their respective business units ("**BUs**" for the purpose of section 2.1.5), whose management is responsible for operating and monitoring the IC and RM systems.

This principle of subsidiarity entails a clear separation of responsibilities between EADS headquarters and the Divisions or BUs. EADS headquarters sets the overall strategic and operational targets for EADS and assumes the ultimate responsibility for EADS' guidance. The Divisions and BUs retain responsibility for all operational matters and activities within their scope.

2.1.5.2 Risk Management System

Risk is an inherent aspect of all entrepreneurial activity. To fulfil the expectations of its shareholders, EADS must pursue opportunities that involve the acceptance of a certain degree of risk. See "1.4.1 Risk Factors" and "1.1.8 Management of Market Risks" for information on certain risks to which the Group is exposed.

Early identification and professional management of these risks is fundamental to business success. EADS recognises this fact and has always managed risks at all levels within the organisation.

In response to recent developments in corporate governance legislation, EADS is currently harmonising existing RM processes at the Group level to ensure that risks are continuously and consistently (i) identified, (ii) analysed, (iii) controlled, (iv) monitored and (v) reported.

Through the RM system, risks are identified and their likelihood of occurrence and possible extent of damage is assessed, usually measured in terms of their effect on operating profit.

Division and BU management are responsible for developing and initiating appropriate measures to avoid, reduce, or hedge the probability and/or impact of the identified risks.

Information on risks is gathered and updated regularly to provide Division and BU management with an up-to-date analysis of the significant risks within the Group, as well as with information on the activities initiated to mitigate or avoid such risks.

The evolution of major risks and the development of the countermeasures taken in response are monitored on a regular basis by Division and BU management, who in turn report to the CEOs and CFO.

The RM system encompasses all risks to which EADS is exposed, including risks inherent in the day-to-day business processes of the Group. EADS' IC system, described below, is designed to manage these process-inherent risks. The relevant risks are subject to a management discussion process on Group level.

2.1 Management and Control (continued)

2.1.5.3 Internal Control Framework

EADS historically maintained a variety of IC procedures with the purpose of providing reasonable assurance to the Board of Directors, the CEOs and the CFO that process-inherent risks arising from the Group's activities were being effectively managed. Following a comprehensive review and evaluation process, the existing EADS IC procedures have been further developed into an integrated Group-wide IC framework. The framework embodies the systems of policies and procedures within EADS designed to:

- enable the Group to identify and respond to significant operational, financial and compliance risks throughout EADS;
- ensure the quality of financial reporting, including design and implementation of processes to generate a flow of timely, relevant and reliable information; and
- ensure compliance with laws and regulations applicable to the Group, as well as with internal Group policies.

Sources and Standards for IC Procedures and Framework

The core policies, procedures and thresholds that define EADS' IC environment are communicated throughout the Group through:

- handbooks (e.g., "EADS Corporate Management Principles and Responsibilities", the "Financial Control Handbook");
- manuals (e.g., Treasury Procedures, "Accounting Manual", "Reporting Manual"); and
- guidelines (e.g., "Funding Policy").

Written internal rules govern the operations of key elements of the EADS IC framework; that is the Board of Directors and its Audit Committee. IC procedures at certain subsidiaries and joint ventures are derived from the relevant shareholders' agreements applicable thereto.

External standards influencing the EADS IC framework include the "Internal Control – Integrated Framework" defined by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), as well as industry-specific standards as defined by the International Standards Organisation.

Development of the IC Framework

Based on an analysis of EADS' activities, sixteen high-level business processes were selected and categorized into core processes (research and development, production, sales, after sales and program management), support processes (procurement, human resources, accounting, fixed assets, treasury, information technology, mergers & acquisitions and legal) and management processes (internal audit, controlling and management controls).

For each of these processes, a specific IC template was developed, describing the relevant control objectives derived from the EADS IC framework. In the preparation of the templates, particular emphasis was given to control objectives related to financial reporting.

To ensure a comprehensive IC approach throughout the Group, the IC templates were deployed to the Group's headquarters, Divisions and BUs. Based on centrally defined materiality thresholds, the Divisions and BUs have been tasked with identifying and selecting the specific lines of business within their control that will apply the templates as part of their regular operations. Certain subsidiaries, such as Airbus, and joint ventures, such as MBDA, possess IC procedures that are customized to their specific businesses – these procedures conform to the overall EADS IC framework. Continuity with the IC framework is ensured, *inter alia*, through EADS' presence on such affiliates' supervisory and management bodies (e.g., Airbus Shareholders' Committee, MBDA Board of Directors).

Monitoring of Internal Controls

Responsibility for the operation of the IC system lies with the management of the Divisions and the BUs, as well as with the relevant EADS headquarters functions. They ensure that the appropriate controls to meet the control objectives defined in the IC templates are in place and operate effectively on an ongoing basis.

As part of the development of the IC framework, EADS has instituted a formalized self-assessment mechanism, to be applied by each business process owner on a regular basis. Based on the results of these detailed self-evaluations, management of each Division, BU and headquarters function will prepare formal statements as to the adequacy and effectiveness of the internal controls within their scope of responsibility.

In addition to the self-assessment process, the IC framework relies upon objective reviews by EADS' Internal Audit department. Commencing in 2005, the joint results of the Internal Audit department's and of external auditors' risk-based reviews of Group operations will provide the Audit Committee and Board of Directors with an independent view on effectiveness of the Group's IC system.

2.1 Management and Control (continued)

Management Sign-Off Process

Starting with the current reporting cycle, a formalized sign-off process is in place whereby EADS' CEOs and CFO will confirm to the Board of Directors that, to the best of their knowledge:

- the IC system is adequately structured to ensure the reliability of financial reporting within EADS;
- the control activities in place are completely and accurately described in the IC templates and/or other relevant process documentation and guidelines;
- the owner of each control activity is clearly identified; and
- the controls in place are appropriate for EADS' business and meet the defined control objectives.

The CEOs' and the CFO's IC statements, submitted to the Board of Directors through the Audit Committee, will be based on the self-assessment and review processes described above, and will be founded upon similar statements provided to the CEOs and CFO by Division and BU management.

Beginning with the 2005 reporting cycle, it is intended that the sign-off process will include an assessment by the CEOs and CFO of the effectiveness of the Group's internal controls.

2.1.5.4 Business Processes Covered by Internal Control Framework

One of the initial objectives of the IC review project was the documentation and assessment of the IC procedures in place for each of the sixteen high-level business processes identified within EADS. Set out below is a description of certain of these business processes, and the correlating IC procedures, covering risks that have a significant potential of affecting the Group's financial condition and results of operations.[2]

Accounting

At the core of EADS' IC framework are accounting processes and controls designed to ensure the reliability of the financial statements and other financial information used by Management and disclosed to EADS' investors and other stakeholders. These processes and controls are part of an overall financial control model integrating strategic planning, operative planning, measurement and reporting, decisions/actions and financial market communication. This integrated approach to planning and reporting aims to improve internal communication and transparency across departments and organisational units within EADS, which are essential to the preparation of accurate and reliable financial statements.

Consolidation Procedures – External Financial Reporting

The EADS financial control model defines the planning and reporting procedures that apply to all operational units of the Group, as well as the responsibilities of the CFO, who is charged with developing, implementing and monitoring these procedures. Among the CFO's primary tasks is overseeing the generation of consolidated financial statements for EADS, which are prepared under the direct supervision of the Chief Accounting Officer ("**CAO**" for the purpose of section 2.1.5). The CAO is responsible for the operation of the Group's consolidation systems and rules and for the definition of Group-wide accounting policies, reporting rules and financial guidelines that ensure the consistency and quality of financial information reported by the BUs and Divisions. EADS' accounting policies are set out in a written accounting manual, which is agreed with the Company's external auditors. Changes to the EADS accounting manual require approval by the CAO, and, where significant changes are involved, the CFO or the Board of Directors (based upon the advice of the Audit Committee).

Control of the financial reporting process is effected not only through the elaboration of Group-wide accounting systems and policies, but also through an organized process for extracting quality information from the reporting units on a timely basis. The EADS reporting process is briefly summarized below.

BU accounting departments record information using the EADS accounting consolidation software, following centrally defined EADS accounting policies which conform with IFRS, the Group-wide applied accounting standards. Accountants at EADS headquarters, who are responsible for each Division, monitor and verify the work of the relevant BU accounting departments. The Division accountants also provide direct support to the BUs to ensure the correct application of the EADS accounting policies.

During the course of each reporting cycle, BU CFOs frequently meet with the EADS CAO to discuss the financial information generated by the BUs.

2 This report is therefore not an exhaustive description of all of the Group's IC procedures.

2.1 Management and Control (continued)

Prior to being disclosed to the public and subsequently submitted for approval to the shareholders, the consolidated financial statements are audited by the Company's external auditors, reviewed by the Audit Committee and submitted for approval by the Board of Directors.

Controlling
The controlling function has developed a value-driven economic and financial corporate measurement system and methodology on an industry benchmark level. The core planning, tracking and reporting tasks of the controlling department provide it with a global overview of the Group. As a result, the controlling department is also called on to interact with other headquarters functions to ensure that corporate activities, such as M&A and sourcing, are carried out in accordance with the Group-level policies and strategies. This global overview also makes controlling an integral element of the risk assessment process.

The EADS financial reporting policies and procedures, described above, are also designed to provide Management with updated (at least monthly) decision-oriented management information to control the operational performance of the Group. This information includes regular cash and treasury reports, as well as other financial information used for future strategic and operative planning and control and supervision of economic risks arising from the Group's operations.

Treasury
Treasury management procedures, defined by EADS' central treasury department at Group headquarters, enhance Management's ability to identify and assess risks relating to liquidity, foreign exchange rates and interest rates. Controlled subsidiaries fall within the scope of the centralized treasury management procedures. For instance, besides daily operational interface, Airbus Treasury Committee meetings, comprising the Group treasurer, the Airbus CFO or treasurer, and BAE's treasurer (and/or its nominee), are held on a regular basis to oversee Airbus' foreign exchange and interest rate exposures and hedging activities, funding, and sales and project finance activities. Similar monitoring procedures exist for jointly-controlled affiliates, such as MBDA.

Cash Management

Maintenance of liquidity to support operations is one of the primary missions of the EADS central treasury department. Monthly cash planning and reporting by the central treasury department, in conjunction with the controlling department, provides Management with the information required to oversee the Group's cash profile and to initiate necessary corrective action in order to ensure overall liquidity.

To maintain targeted liquidity levels, and to safeguard cash, EADS has implemented a cash pooling system with daily cash sweeps from the controlled subsidiaries to centrally managed accounts. Payment fraud prevention procedures have been standardized throughout the Group.

Hedge Management

Commercial operations generate material foreign exchange and interest rate exposures. A Group hedging policy is defined and updated regularly by the Board of Directors. In order to ensure that all hedging activity is undertaken in line with the Group hedging policy, the central treasury department executes all hedging transactions. The central treasury department conducts ongoing risk analysis and proposes appropriate measures to the Divisions and BUs with respect to foreign exchange and interest rate risk. Subsidiaries are required to calculate, update and monitor their foreign exchange and interest rate exposure with the EADS central treasury department on a monthly basis, in accordance with defined treasury procedures.

A significant portion of the Group's foreign exchange exposure relates to the activities of Airbus, the implementation of whose hedging policy is overseen by the Airbus Shareholders' Committee. The Airbus Treasury Committee monitors foreign currency exposure and decides on the detailed implementation of the Airbus hedging policy. However, actual hedging transactions are executed by the EADS Central Treasury department.

Sales Financing

In connection with certain commercial contracts, EADS may agree to enter into sales financing arrangements. In respect of sales financing at Airbus, an annual sales financing budget, defined in the EADS operative planning process, is agreed by the Airbus Shareholders' Committee. The Airbus Treasury Committee approves sales financing transactions on a case-by-case basis, in line with its risk assessment guidelines.

Procedures for Monitoring Off-Balance Sheet Liabilities

Within EADS, off-balance sheet liabilities mainly arise in connection with lease arrangements, extensions of guarantees and pending or threatened litigation. Divisions and BUs are required to record, or to provide information on all financial guarantees in a tracking system. Guarantees for amounts in excess of a certain threshold must be approved by the CFO, the CEOs or the Board of Directors, as the case may be.

2.1 Management and Control (continued)

Management has instituted procedures to monitor the level of certain off-balance sheet liabilities throughout the Group. In particular, a specialized guarantee tracking system has been rolled out to monitor exposure arising from guarantees throughout the Group.

For Airbus and jointly controlled affiliates, such as MBDA, summary information on guarantee-related off-balance sheet exposure is captured by EADS headquarters based on regular reports of this exposure and discussed in the Airbus and MBDA Treasury Committee.

Sales

Commercial contracts entered into by EADS' operating subsidiaries have the potential to expose the Group to significant financial, operational and legal risks. To control these risks, Management has implemented contract proposal review procedures to ensure that EADS does not enter into material commercial contracts that expose it to unacceptable risk or are not in line with the Group's overall objectives. These procedures include (i) Board of Directors-approved thresholds and criteria for determining the risk and profitability profile of proposed contracts and (ii) a mandated pre-approval process for contracts defined as high-risk.

Contracts falling below the defined thresholds require approval by the CFO. Contracts that are deemed high-risk must be submitted to a standing Commercial Committee (with the CFO and the Head of EADS International serving as permanent members). This Committee is responsible for reviewing the proposal and submitting a decision-leading recommendation to the CEOs. Its specific role and responsibilities are defined in a set of internal rules adopted by the EADS Executive Committee.

In the case of Airbus, contracts are approved in accordance with Airbus' own corporate governance policy, which is based on EADS guidelines. Nonetheless, the EADS Commercial Committee reviews certain Airbus contracts if they exceed specified thresholds. In general, where EADS shares control of a subsidiary with a third party, the Commercial Committee is responsible for forming the EADS position on proposed commercial contracts.

Mergers and Acquisitions

With respect to merger, acquisition and divestiture activities of the Group, Management has implemented transaction review and approval procedures centralized at EADS headquarters. The IC procedures require all M&A transactions to be reviewed by an M&A Committee. The M&A Committee is chaired by the Head of Strategic Coordination, and includes the CFO and the directors of Group headquarters level M&A and controlling departments. Legal Affairs is permanently represented on the M&A Committee, and representatives of other departments are also invited to attend meetings.

Projects that are considered non-strategic and fall under a defined value threshold are reviewed and approved by the M&A Committee. Strategic and high-value projects require additional approval by the CEOs or the Board of Directors. This review and approval procedure is carried out at four critical stages of the M&A process, beginning with an analysis of the strategic fit and definition of the legal framework and concluding with a final review of the overall transaction.

Legal

EADS is subject to a myriad of legal regimes in each jurisdiction in which it conducts business. The EADS Legal Affairs directorate, in coordination with the Division and BU legal departments, is responsible for implementing and overseeing the procedures designed to ensure that EADS' activities comply with all applicable laws, regulations and requirements. It 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.

Legal Affairs, together with the Corporate Secretary, also plays an essential role in the design and administration of (i) the EADS corporate governance procedures and (ii) the legal documentation underlying the delegation of powers and responsibilities and defining the EADS management and IC environment.

Internal Audit

The EADS Internal Audit department, under the direction of the Corporate Secretary, provides Management with a risk-based evaluation of the effectiveness of the Group's IC procedures. Based upon an approved annual audit plan and a global risk assessment of the Group's activities, the Internal Audit department (i) reviews operational processes for risk management and operating efficiency improvement opportunities and (ii) monitors compliance with legal requirements and internal policies, process guidelines and procedures (e.g., compliance with EADS' accounting policies). Internal Audit also involves *ad hoc* reviews, performed at the request of management, focusing on current (e.g., suspected fraudulent activities) and future (e.g., contract management) risks.

2.1 Management and Control (continued)

Procurement

A group with the size and complexity of EADS requires a common sourcing policy to maximize market effort and minimize inefficiencies in the procurement process. To ensure that corporate sourcing is carried out in an efficient and ethical manner, a set of common purchasing processes, in line with a common sourcing strategy, is defined and implemented by the Head of Corporate Sourcing and the Procurement Directors Board.

2.1.5.5 Outlook for Evolution of EADS' Internal Control and Risk Management Systems

Building on the results of the comprehensive IC and RM review and evaluation process commenced in 2004, EADS will critically assess the roll-out of the IC framework and RM system over the course of 2005. In response to ongoing monitoring of the efficacy and workability of the IC and RM systems, based on the 2004 self-assessments and the results of Internal Audit's review, further enhancements and modifications to the IC and RM systems throughout 2005 are likely. These enhancements and modifications will be aimed at ensuring that EADS continues to operate in accordance with global best IC and RM practices.

2.2 Interests of Directors and Principal Executive Officers

2.2.1 Compensation Granted to Directors and Principal Executive Officers

EADS' remuneration policy aims at attracting and retaining talents that will contribute to the Group's business success. The compensation policy is therefore designed to focus efforts on what the Group wants to value and reward.

The Board of Directors is composed of Non-Executive Directors and Executive Directors (who are also members of the Executive Committee).

Compensation of the Directors

The Non-Executive Directors are entitled to receive an accumulated total target compensation as a group of Non-Executive Directors on a full year basis of €900,000. This target compensation includes (i) a fixed part of €30,000 per director and €60,000 per chairman, (ii) a fee for participation in Board of Directors' meetings and Committee meetings (if such Committee meetings take place on a different date than the Board of Directors' meetings) of €5,000 per director and €10,000 per chairman, per meeting and (iii) a variable part composed of a profit sharing calculated, starting 2004, on the basis of EBIT* (75%) and cash (25%) results of the Group, of €50,000 per director and €100,000 per chairman at 100% target achievement. The rules for the profit sharing calculation on the basis of EBIT* (75%) and cash (25%) results of the Group for the Non-Executive Directors are the same as for the members of the Executive Committee (see below "Compensation of the Members of the Executive Committee"). The Non-Executive Directors do not have termination packages.

The Executive Directors receive neither fees for participation in Board of Directors' meetings nor any dedicated compensation as members of the Board of Directors in addition to their compensation as members of the Executive Committee (see below "Compensation of the Members of the Executive Committee"). The Executive Directors are eligible for benefits under stock option plans (see "2.3.3 Options Granted to Employees") and under employee share ownership plans in their capacity as qualifying employees (see also "2.3.2 Employee Share Offering"). Additionally, the Executive Directors are entitled to pension benefits.

The amounts of the various components constituting the compensation granted to Executive Directors and Non-Executive Directors during 2004 together with additional information such as the number of stock options and details of the pension benefits entitlements of the Executive Directors are set out in "Notes to the Statutory Financial Statements – Note 8: Remuneration".

The Executive Directors are also entitled to a termination package when they leave the Company as a result of a decision of the Company. Such termination package varies according to the type of their contracts (either fixed term contracts of five years with full pay until the end of the contract period plus an indemnity of up to a maximum of 18 months of their target income or contracts for an indefinite term with an indemnity of up to a maximum of 24 months of their target income).

Compensation of the Members of the Executive Committee

The members of the Executive Committee, including Executive Directors but also members of the Executive Committee who are not members of the Board of Directors, are entitled to receive for the year 2004 an accumulated total target compensation on a full year basis of €12,589,231. This target compensation is divided into a 50% fixed part and a 50% variable part (in practice, the variable part can exceed 50% of the total compensation in case of overachievement of the targets). The variable part, starting 2004, is calculated on the basis of two equal components: (i) a profit sharing calculated on the basis of EBIT* (75%) and cash (25%) results of the Group and (ii) a bonus corresponding to individual achievements.

The total compensation paid by EADS and all its Group companies to the two Chief Executive Officers of the Company, Mr. Philippe Camus and Mr. Rainer Hertrich, during the year 2004 was €2,010,251 each.

2.2.2 Options Granted to the Two Chief Executive Officers

See "2.3.3 Options Granted to Employees".

2.2.3 Related Party Transactions

EADS being a company incorporated under Dutch law, Articles L.225-38 to L.225-43 and L.225-86 to L.225-91 of the French *Code de Commerce* on related party transactions are not applicable to it.

Article 2:146 of the Dutch Civil Code provides as follows:

"Unless the articles of association provide otherwise, a company (*naamloze vennootschap*) shall be represented by its board of supervisory directors in all matters in which it has a conflict of interest with one or more of the members of its board of directors. The shareholders' meeting shall at all times have powers to designate one or more persons for this purpose." In the case of EADS, the Articles of Association do provide otherwise since they enable the Board of Directors to

2.2 Interests of Directors and Principal Executive Officers (continued)

have power to represent the Company in matters where the Company has a conflict of interest with one or more members of the Board of Directors.

During the year 2004, no agreement was entered into by the Company with one of its directors or principal officers or a shareholder holding more than 5% of the voting rights of the Company outside the ordinary course of business and in conditions other than arm's length conditions.

For a description of the relationships between the Company and its principal shareholders, see "Part 2/3.3.2 Relationships with Principal Shareholders".

As indicated in "Part 2/3.1.3.1 Ongoing Disclosure Obligations", pursuant to the financial law 44/2002, of 25th November 2002, on Measures Reforming the Financial System (*Ley 44/2002, de 25 de noviembre, sobre Medidas de Reforma del Sistema Financiero*) (the "**Financial Law**"), and the Ministry of Economy Order dated 15th September 2003, the Company is obliged to provide the *Comisión Nacional del Mercado de Valores* (the "**CNMV**") with certain information in relation to every transaction carried out with any related party (in addition to the description of related party transactions included in the corporate governance report to be filed with the CNMV on an annual basis (the "**Annual Corporate Governace Report**") pursuant to Ministry of Economy Order 3722/2003 dated 26th December 2003 (the "**Ministerial Order**")).

2.2.4 Loans and Guarantees Granted to Directors

EADS has not granted any loans to its Directors or members of the Executive Committee.

2.3 Employee Profit Sharing and Incentive Plans

2.3.1 Employee Profit Sharing and Incentive Agreements

EADS' remuneration policy is strongly linked to the achievement of individual and Company objectives, both for each Division and for the overall Group. A stock option plan has been established for the senior management of the Group (see "– Options Granted to Employees") and employees were offered shares at favourable conditions at the time of the public offering and listing of EADS (see "– Employee Share Offering").

EADS France has profit sharing plans (*accords de participation*), in accordance with French law, and specific incentive plans (*accords d'intéressement*), which provide bonuses to employees based on the achievement of productivity, technical or administrative milestones.

EADS Deutschland GmbH's remuneration policy is, to a large extent, flexible and strongly linked to the EBIT* of the company, the increase in value of the company and the achievement of individual objectives.

EADS CASA, which does not have a profit sharing policy, allows technicians and management to receive profit-related pay, subject to the achievement of the general company objectives and individual performance.

2.3.2 Employee Share Offering

As part of its initial public offering, EADS offered to qualifying employees approximately 1.5% of its total share capital after the global offering. This employee offering of up to 12,222,385 shares included an option allowing qualifying employees to leverage their investment in the shares they purchased. Under this option, the investment consisted of the amount paid plus an amount resulting from a swap agreement of the investment management company for this option, that equalled nine times such amount paid. Qualifying employees were offered shares at a price of €15.30, being the price for the retail offering, less a discount of 15%.

The employee offering was open only to employees who:

- had at least three months' seniority;
- had French, German or Spanish employment contracts; and
- were employed by companies incorporated under French, German or Spanish law in which EADS held (i) the majority of the share capital or (ii) at least 10% of the share capital, provided such minority-owned companies were designated as eligible by EADS.

Depending on whether the employee purchased shares through a French, German or Spanish plan, directly or via a mutual fund, the employee is restricted from selling the shares for one of the following lock-up periods: 18 months, three years, five years or six years.

A total number of 11,769,259 shares were subscribed for in the employee offering. Shares were delivered on 21st September 2000.

In October 2001, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,017,894 shares of a nominal value of €1 each.

The employee offering (*note d'opération préliminaire* approved by the COB (former name of the *Autorité des marchés financiers* (the "**AMF**")) on 8th October 2001 under number 01-1200 and *note d'opération définitive* approved by the COB on 13th October 2001 under number 01-1209) was open only to employees who:

- had at least three months' seniority;
- were employed by (i) EADS or (ii) one of its subsidiaries or (iii) a company in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered office is located in South Africa, Germany, Brazil, Canada, Spain, the United States, the United Kingdom, France, Italy, Morocco, Mexico and Singapore.

The employee offering was divided into two tranches:

- shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of €10.70 per share;
- shares subscribed for by qualifying employees directly were offered for a price of €10.70 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 2,017,894 shares were subscribed for in the employee offering. Shares were delivered on 5th December 2001.

In October 2002, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,022,939 shares of a nominal value of €1 each.

2.3 Employee Profit Sharing and Incentive Plans (continued)

The employee offering (*note d'opération préliminaire* approved by the COB on 30th September 2002 under number 02-1062 and *note d'opération définitive* approved by the COB on 11th October 2002 under number 02-1081) was open only to employees who:

- had at least three months' seniority;
- were employed by (i) EADS or (ii) one of its subsidiaries or (iii) a company in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered office is located in Germany, Brazil, Canada, Spain, the United States, the United Kingdom, France, Italy, Mexico and Singapore.

The employee offering was divided into two tranches:

- shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of €8.86 per share;
- shares subscribed for by qualifying employees directly were offered for a price of €7.93 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 2,022,939 shares were subscribed for in the employee offering. Shares were delivered on 4th December 2002.

In October 2003, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,027,996 shares of a nominal value of €1 each.

The employee offering (*note d'opération* approved by the COB on 25th September 2003 under number 03-836) was given only to employees who:

- had at least three months' seniority;
- were employed by (i) EADS on (ii) one of its subsidiaries or (iii) a company in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered office is located in Germany, Belgium, Canada, Spain, the United States, the United Kingdom, France, Ireland, Mexico, the Netherlands and Singapore.

The employee offering was divided into two tranches:

- shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of €12.48 per share;
- shares subscribed for by qualifying employees directly were offered for a price of €12.48 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 1,686,682 shares were subscribed for in the employee offering. Shares were delivered on 5th December 2003.

In October 2004, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,018,000 shares of a nominal value of €1 each.

The employee offering (*note d'opération* approved by the AMF on 10th September 2004 under number 04-755) was given only to employees who:

- had at least three months' seniority;
- were employed by (i) EADS on (ii) one of its subsidiaries or (iii) a company in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered office is located in Germany, Belgium, Canada, Spain, the United States, the United Kingdom, France, Ireland, Mexico, the Netherlands, Singapore, Australia and Finland.

The employee offering was divided into two tranches:

- shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of €18 per share;
- shares subscribed for by qualifying employees directly were offered for a price of €18 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 2,017,822 shares were subscribed for in the employee offering. Shares were delivered on 3rd December 2004.

2.3 Employee Profit Sharing and Incentive Plans (continued)

2.3.3 Options Granted to Employees

At its 26th May 2000, 20th October 2000, 12th July 2001, 9th August 2002, 10th October 2003 and 8th October 2004 meetings, the Board of Directors of the Company, using the authorisation given to it by the shareholders' meetings of 24th May 2000, 10th May 2001 and 6th May 2003 approved the granting of stock options for subscription of shares in the Company. The principal characteristics of these options are summarised in the table below:

	First Tranche	Second Tranche
Date of general meeting	24th May 2000	24th May 2000
Date of board meeting	26th May 2000	20th October 2000
Number of options that were granted	5,324,884	240,000
Number of options outstanding	4,545,400	227,000
Of which: shares that may be subscribed by directors and officers	720,000	60,000
Total number of eligible employees	Approximately 850	34
Date from which the options may be exercised	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules (see "Part 2/3.1.3 Governing Law – Dutch Regulations")).	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules (see "Part 2/3.1.3 Governing Law – Dutch Regulations")).
Date of expiration	Tenth anniversary of the date of grant of the options	Tenth anniversary of the date of grant of the options
Exercise price	€20.90	€20.90
Number of options exercised	123,000	6,000

2.3 Employee Profit Sharing and Incentive Plans (continued)

	Third Tranche	Fourth Tranche
Date of general meeting	10th May 2001	10th May 2001
Date of board meeting	12th July 2001	9th August 2002
Number of options that were granted	8,524,250	7,276,700
Number of options outstanding	7,421,725	6,676,216
Of which: shares that may be subscribed by:		
– Mr. Philippe Camus*	135,000	135,000
– Mr. Rainer Hertrich*	135,000	135,000
– the 10 employees having being granted the highest number of options during the year 2001 (third tranche) and 2002 (fourth tranche)	738,000	808,000
Total number of eligible beneficiaries	Approximately 1,650	Approximately 1,562
Date from which the options may be exercised	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules (see "Part 2/3.1.3 Governing Law – Dutch Regulations")).	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules (see "Part 2/3.1.3 Governing Law – Dutch Regulations")).
Date of expiration	Tenth anniversary of the date of grant of the options	Tenth anniversary of the date of grant of the options
Exercise price	€24.66	€16.96
Number of options exercised	0	352,009

2.3 Employee Profit Sharing and Incentive Plans (continued)

	Fifth Tranche	Sixth Tranche
Date of general meeting	6th May 2003	6th May 2003
Date of board meeting	10th October 2003	8th October 2004
Number of options that may be subscribed	7,563,980	7,777,280
Number of options outstanding	7,444,520	7,777,280
Of which: shares that may be subscribed by:		
– Mr. Philippe Camus*	135,000	135,000
– Mr. Rainer Hertrich*	135,000	135,000
– the 10 employees having being granted the highest number of options during the year 2003 (fifth tranche) and 2004 (sixth tranche)	808,000	808,000
Total number of eligible beneficiaries	Approximately 1,491	Approximately 1,495
Date from which the options may be exercised	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules (see "Part 2/3.1.3 Governing Law – Dutch Regulations")).	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options and when applicable, subject to certain performance conditions (subject to specific provisions contained in the Insider Trading Rules – see "Part 2/3.1.3 Governing Law – Dutch Regulations").
Date of expiration	Tenth anniversary of the date of grant of the options	Tenth anniversary of the date of grant of the options
Exercise price	€15.65	€24.32
Number of options exercised	9,600	0
Number of options cancelled during the year 2003 (fifth tranche) and 2004 (sixth tranche)	108,460	0

* For more information in respect of options granted to the Executive Directors, see "Notes to the Statutory Financial Statements – Note 8: Remuneration".

Chapter 3: Outlook

3.1 2005 Financial Outlook

Revenues

For 2005, EADS is targeting consolidated revenues of approximately €33 billion, as compared to €31.8 billion for 2004. This target reflects the expected impact of a weaker U.S. dollar exchange rate over the year (an assumed average market rate of €1=U.S.$1.30 for 2005, as compared to the actual average of €1=U.S.$1.24 in 2004). Overall revenues of the defence businesses' are expected to increase by 10% over 2004.

EADS anticipates that Airbus will deliver 350 to 360 aircraft in 2005. Airbus revenues are expected to increase in line with higher deliveries of single aisle aircraft. The 2005 aircraft mix is likely to be less favourable than in 2004.

Revenues from the MTA Division are expected to grow significantly in 2005, boosted mainly by the continued ramp-up of the A400M program. Other activities, including the start-up of the A330 MRTT Australian contract, medium and light aircraft deliveries, as well as the modernisation of the Brazilian P3 Orion, are expected to contribute overall revenues slightly above 2004 levels.

In the Aeronautics Division, new military models such as the NH90 transport and Tiger combat helicopters are expected to reach the market. Meanwhile, regional turboprop aircraft (ATR-42/ATR-72) and general aircraft (TBM), and activities such as aircraft conversion, are facing competitive pressure in a market that remains narrow. The Division's aerostructure activities are expected to continue benefiting from the civil aerospace upturn. Overall, revenues should grow significantly in 2005, mostly driven by Eurocopter.

The DS Division's current order-book offers good visibility as to future revenues of the Missiles and Military Aircraft businesses. Overall, 2005 revenues of the DS Division are likely to be negatively impacted by the recent disposal of Multicom and Enterprise Telephony activities.

The Space Division has adapted to the changing markets in which it operates. While restructuring its own operations, it has also played a key role in the consolidation of the overall European space industry, and has offered new services to its customers in the field of secured communications. Despite a difficult environment (e.g., Euro/U.S. dollar exchange rate, a "gloomy" telecommunication satellite market, severe limitations of National and European agencies), a moderate increase in 2005 revenues is anticipated in light of the current order-book.

EBIT*

EADS' consolidated EBIT* is expected to exceed €2.6 billion (up 6%) for 2005, reflecting an increase in performance across the group, partly offset by less favourable hedges, and by the impact of the weak U.S. dollar on the naturally hedged portion of the net exposure.

Airbus' 2005 EBIT* is targeted to grow from 2004. It should benefit mainly from an increase in deliveries and from the progressive benefits of the Route 06 cost savings plan. These factors are expected to significantly compensate for (i) the negative impact of a slightly lower proportion of larger aircraft deliveries and (ii) the effects of a weaker U.S. Dollar from the few aircraft not yet hedged and from the maturing of less favourable hedges. Self-financed research and development is expected to continue at around the same level, mostly due to the continuing development of the A380 – the passenger and freighter versions are due for entry into service in 2006 and 2008 respectively. The new A350 project will only marginally impact the 2005 research and development budget, but is expected to increase in following years. The positive accounting impact from the Airbus GIE merger into Airbus SAS is expected to diminish in 2005.

For the MTA Division, higher revenues and the early benefits of restructuring will feed through to higher EBIT* in 2005.

2005 EBIT* at the Aeronautics Division is expected to reflect the continuing improvement of Eurocopter performance, offset by the impact of a weaker U.S. dollar and by ongoing recovery programmes, namely in the Sogerma business.

The DS Division's 2005 EBIT* will reflect continuing improvement of recurring business' profitability, notwithstanding further investments in strategic projects and restructuring plans to foster efficiencies. 2005 EBIT* will not benefit from the non-recurring positive effect of €106 million, relating to the release of a litigation provision in 2004.

Moreover, the fully re-engineered and operational Space Division is now poised for EBIT* margin progressive expansion from 2005 onwards.

Cash

Free Cash Flow before customer financing and Paradigm investment outflows is expected to be positive in 2005.

Earnings Per Share

Earnings per share are expected to increase by 5% in 2005, to €1.36 per share, based on an average of 803 million shares outstanding.

3.2 2005 Calendar of Financial Communication

2004 Annual Results Release: 9th March 2005

First Quarter 2005 Results Release: 9th May 2005

Annual General Meeting: 11th May 2005

Global Investor Forum: June 2005

First Half 2005 Results Release: 27th July 2005

Third Quarter 2004 Results Release: 9th November 2005

Reference Document Thematic Index

In order to simplify the reading of this document which is filed as part of the EADS Reference Document for the financial year 2004, the following thematic index permits the identification of the main information required by the *Autorité des marchés financiers* within the framework of its regulation.

Reference Document Thematic Index (continued)

Designed by williams and phoa.
Typeset by Bowne.

European Aeronautic Defence and Space Company EADS N.V.
Le Carré, Beechavenue 130–132
1119 PR Schiphol-Rijk
The Netherlands

www.eads.com

This document is also available at the following addresses:
European Aeronautic Defence and Space Company EADS N.V.

In France
37, boulevard de Montmorency
75781 Paris cedex 16 – France

In Germany
81663 Munich – Germany

In Spain
Avenida de Aragón 404
28022 Madrid – Spain

Cover image
Airbus A340-300