EADS

FINANCIAL STATEMENTS AND CORPORATE GOVERNANCE

A message from the Chief Operating Officer for Finance

Dear Shareholders, Customers and Employees,



Hans Peter Ring
COO for Finance

2005 was the best year ever in EADS history. Financial discipline, vigorous business development, a strong management team and a dedicated workforce- these remain the success factors for delivering excellent financial performance for the sixth consecutive year!

Airbus leadership continued in 2005, the best year ever in terms of deliveries, order intake and profitability. The €93 billion order intake achieved in 2005 validates our belief that the aviation market remains in a vigorous up-cycle. Most impressively, our order backlog of over €250 billion is at historic levels – offering five years of forward visibility.

The civil helicopter, freighter conversion and turboprop businesses performed exceptionally well. Our defence businesses also contributed stronger results and Space continued its recovery by posting further improved results. This is fresh evidence that EADS is becoming a successfully balanced concern in almost every relevant aerospace segment.

Another favourable development was the partial recovery of the U.S. Dollar in 2005. Cautiousness is still required however. We, therefore, strengthened our hedge book appropriately, in line with business conservatism and sound profitability targets.

Existing cost-savings programs such as Airbus Route 06 continued to be actively pursued. And we see further cost-savings potential across our other businesses.

During 2005, we maintained significant cash reserves of over €5 billion. We have deliberately conserved cash in order to give us the financial flexibility to: fund new internal initiatives; invest in innovation; and take advantage of business development and M&A opportunities as they arise. Moreover, a conservative approach to cash is a key element of our single A rating – a real competitive asset in our industry.

EADS now has a strong basis for future growth. All the fundamentals are in place. The next phase in our history of ambitious achievement will be characterized by three paths or enablers of growth: internationalisation, innovation, and improvement.

Internationalisation means enhancing our position in the growth markets of the world. We are implementing this process through a targeted combination of direct investment, strategic partnerships, and M&A, backed by a global procurement network. The mix will be specifically adapted to the local or regional context, as we look toward Asia and the Americas for new sources of high margin sales.

Innovation is already a hallmark of EADS – As our A380 illustrates. Yet the task we have set before the company is to bring to market breakthrough products at a more accelerated pace. Behind the scenes, we are focusing intensely on making our industrial and management processes more creative, more cutting edge. We want to ensure that management is looking ahead, targeting the necessary resources on the types of innovation that deliver the best overall value for our military and commercial customers.

Improvement in performance must be a constant task of management. We are determined to deliver impressive results for our shareholders in 2006 and beyond. Indeed, our aspiration is to achieve performance standards which are benchmark for our industry.

Improvement also means being best-in-class when it comes to business intelligibility. In 2005, we implemented our integrated state-of-the-art Risk Management and Internal Control system. This system augments an already impressive array of tools which enable high transparency in our reporting. Given the long-term nature of our businesses and required investments we consider that the further development of the Risk Management processes are crucial for actively steering towards a predictable, sustainably excellent and constantly improving organisation.

Finally, we are seeing a further maturation in the EADS shareholder structure. On 9th April 2006, two of our founding shareholders, DaimlerChrysler and Lagardère SCA, announced their intention to reduce their holdings while still remaining committed to being long-term shareholders of EADS. This increases the free float, both now and over the next three years, enhancing the attractiveness of EADS as a global investment.

We are looking forward to an exciting 2006, and to delivering the results you have come to expect of EADS.

Yours truly,

Hans Peter Ring
Chief Operating Officer for Finance

EADS Registration Document

Part 1

(Financial Statements and Corporate Governance)

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

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

Financial Statements and Corporate Governance

Registration Document - **Part 1**

Risk Factors

1

Net Assets, Financial Position, Results

2

Corporate Governance

3

Outlook

Financial Statements and Corporate Governance

Registration Document – Part 1

EADS Business, Legal and Corporate Responsibility

Registration Document – Part 2

Chapter 3 - General Description of the Company and its Share Capital p. 95

Chapter 4 - Entity Responsible for the Registration Document 133

Risk Factors

EADS and its subsidiaries (the "**Group**") are 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. Financial Market Risks

Exposure to Foreign Currencies

EADS' revenues are mainly denominated in U.S. Dollars, while a substantial 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. 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 "1.1.4.3 EBIT* Performance by Division — Hedging Impact on EBIT*" for a discussion of EADS' foreign currency hedging policy. See "1.1.3.5 Accounting for Hedged Foreign Exchange Transactions in the Financial Statements" for a summary of EADS' accounting treatment of foreign currency hedging transactions.

Exposure to Sales Financing Risk

In support of sales, EADS (primarily through Airbus and ATR with respect to commercial aircraft) 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, 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.

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.

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' general policy is to provide financing to customers and through structures with an appropriate credit standing. See "1.1.7.4 Sales Financing".

Exposure 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 €1.9 billion at 31st December 2005. 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 held to hedge the dilution risk arising from employee stock ownership plans and the exercise by employees of stock options.

2. Business-Related Risks

Aircraft Market Cyclicality

In 2005, 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 Severe Acute Respiratory Syndrome ("**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 2005, approximately 23% 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.

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 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. EADS has recently received financing from certain governments in relation to the A380 commercial aircraft program, and certain E.U. countries have already committed to fund the development of the A350 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 eventually led to formal claims and counterclaims being made by the U.S. and the E.U. respectively with the World Trade Organisation ("**WTO**"). The E.U. and the U.S. have also entered into negotiations to seek a resolution to the issues being disputed in the formal WTO process, with the goal of agreeing a new system that provides for a level playing field when funding future aircraft developments. The terms and conditions of any new agreement, or the outcome of the formal WTO proceedings, may limit access by Airbus to risk-sharing-funds for large projects or establish an unfavourable 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 and programs 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 or programs 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. For example, 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. 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 have a significant adverse effect on the competitive reputation of EADS' products. See "3. Legal Risks — Product Liability and Warranty Claims".

Major Research and Development Programmes

The business environment in many of EADS' principal operating business segments is characterised by extensive research and development costs requiring significant up-front 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 multi-employer defined benefit plans.

BAE Systems defined benefit obligations have to be funded with post retirement pension assets. As of 1st January 2005, BAE Systems is applying International Financial Reporting Standards ("**IFRS**"). International Accounting Standard ("**IAS**") 19 "Employee Benefits" requires an entity to recognise a pension provision whenever its defined benefits plans are not sufficiently covered by corresponding asset and consequently underfunded. Applying IAS 19, BAE Systems calculated for its U.K. and U.S. pensions schemes a total underfunding amounting to £3,870 million for year end 2004. Through its investments Airbus and MBDA, EADS is potentially affected by the shortfall in BAE Systems pension schemes. 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 July 2011 for Airbus and until December 2007 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. Based on information currently available, EADS judges this information not to be sufficient to determine a reliable basis to calculate its share in the pension deficit. Consequently, EADS expenses the contributions made to the pension scheme as if the plans were defined contribution plans.

On 1st November 2003, EADS established a new pension scheme for Astrium U.K. The defined benefit obligation of the new plan, calculated as of 31st December 2005, amounts to £168 million. Plan assets are recorded at £114 million, resulting in a net liability of £54 million, which covers the maximum risk associated with the creation of the new plan. See "Notes to the Consolidated Financial Statements (IFRS) - Note 21(b): Provisions for Retirement Plans".

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, and (b) Dornier GmbH; 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.

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 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 Environmental Care".

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 "Risk Factors".

The following discussion is based upon the audited consolidated financial statements of EADS for 2005, 2004 and 2003, prepared in accordance with International Financial Reporting Standards ("**IFRS**") adopted by the International Accounting Standards Board as endorsed by the European Union (together, the "**Financial Statements**"). Since 1st January 2005, EADS has retrospectively applied revised International Accounting Standard ("**IAS**") 32 "Financial Instruments: Disclosure and Presentation", with the effect of accounting for BAE Systems' 20% stake in Airbus as a financial liability in the consolidated balance sheet rather than as a minority interest. In addition, the first-time application of IFRS 2 "Share-based Payments" in 2005 (applied retrospectively to 2004), resulted in the expensing of stock option plans. See "Notes to Consolidated Financial Statement (IFRS) — Note 2: Summary of significant accounting policies", "Note 12: Intangible assets", "Note 20: Total equity", "Note 23: Liability for puttable instruments", "Note 31: Share-based Payment" and "Note 35: Earnings per share".

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

- "Part 1 / 1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations" of the *Document de Référence* filed in French with the *Autorité des marchés financiers* on 1st April 2004 and filed in English with the Chamber of Commerce of Amsterdam; and
- "Part 1 / 1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations" of the *Document de Référence* filed in French with the *Autorité des marchés financiers* on 19th April 2005 and filed in English with the Chamber of Commerce of Amsterdam.

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

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 2003	1.1304	0.6919	1.2630	0.7048
31st December 2004	1.2438	0.6787	1.3621	0.7051
31st December 2005	1.2441	0.6838	1.1797	0.6853

Ratings

EADS currently is rated A1 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 €34.2 billion for 2005, EADS is Europe's premier aerospace and defence company and the second largest aerospace and defence company in the world. In terms of market share, EADS is among the top two manufacturers of commercial aircraft (surpassing Boeing in terms of both deliveries and orders since 2003), civil helicopters, commercial space launch vehicles and missiles, and a leading supplier of military aircraft, satellites and defence electronics. In 2005, it generated approximately 77% of its total revenues in the civil sector and 23% in the defence sector. As of 31st December 2005, EADS' active headcount was 113,210.

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;
- **Eurocopter:** Development, manufacturing, marketing and sale of civil and military helicopters, and provision of 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-based 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 2005, the former Aeronautics Division, which included the Eurocopter, ATR, EFW (*Elbe Flugzeugwerke*), Socata and Sogerma Services business units ("**BUs**"), was dissolved and a new Eurocopter Division was created. In the adapted segment reporting, EADS allocates the four legacy Aeronautics BUs to "Other Businesses". Their activities comprise the development, manufacturing, marketing and sale of regional turboprop aircraft, light commercial aircraft and aircraft components, as well as civil and military aircraft conversion and maintenance services.

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. Since 1st January 2005, EADS is retrospectively applying revised IAS 32 "Financial Instruments: Disclosure and Presentation". Revised IAS 32 provides modified guidance as to whether a share in an entity should be classified as equity or as a financial liability. Pursuant to the put option granted to BAE Systems with respect to its 20% stake in Airbus, EADS has an obligation to purchase the 20% stake whenever requested by BAE Systems, during a yearly-recurring time window, for an amount to be negotiated at the time the put option is exercised, payable in cash or an equivalent amount of EADS shares. In light of these characteristics, IAS 32 requires the put option to be accounted for as a liability ("liability for puttable instruments") in the consolidated balance sheet, stated at fair value in the amount of €3.5 billion. The fair value of this liability was derived through various sources, using different valuation techniques, based on best estimates then available to Management. Subsequent changes to the valuation of the put option will be recorded as changes to "liability for puttable instruments" and to goodwill, without any direct impact on the consolidated income statement. BAE Systems' annual claim to net income on the 20% share in Airbus is now recorded as a partial repayment of the "liability for puttable instruments", and no longer affects minority interest. Corresponding restatements were made to EADS' 2004 and 2003 consolidated net income and earnings per share to account for this change in accounting policy.

The impact on EADS' 2005 consolidated balance sheet of the application of IAS 32 is illustrated below:

	Actuals 2005 before BAE put option	BAE put option value: 2001	Dividends paid to BAE 2001-2005	Reclass minorities 2001 to 2004	Valuation put option BAE in 2004/2005	Total impact	Actuals 2005 incl. BAE put option
Assets	**9 533**	**0**	**0**	**0**	**634**	**634**	**10 167**
Goodwill	9 533				634	634	10 167
Total equity	**16 768**	**(3 654)**	**788**	**0**	**0**	**(2 866)**	**13 902**
Equity attributable to equity holders	14 366	(2 537)	788	1 109		(640)	13 726
Minority interest	2 402	(1 117)		(1 109)		(2 226)	176
Total Liabilities	**0**	**3 654**	**(788)**	**0**	**634**	**3 500**	**3 500**
Liability for puttable instruments *	0	3 654	(788)		634	3 500	3 500

(*) *As a result of the accounting principles adopted by EADS in this respect, the variation in the "liabilities for puttable instruments" from 2001 (€3.7 billion) to 2005 (€3.5 billion) reflects (i) a decrease in the liability of €788 million due to cumulative dividends paid to BAE Systems over the period (2001: €501 million; 2002: €100 million; 2003: €30 million; 2004: €64 million; 2005: €93 million) and (ii) an increase in the liability of €634 million related to the cumulative reassessment of the liability at the end of each period (leading to an increase in Airbus goodwill of €541 million in 2004 and €93 million in 2005).*

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 Chief Executive Officer ("**CEO**"), Chief Operational Officer ("**COO**")-Operations and Chief Financial Officer ("**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 2nd September 2005, EADS acquired Nokia's Professional Mobile Radio - PMR activities (EADS Secure Networks Oy) from Nokia. The initial purchase accounting for this business combination has been determined on a provisional basis. Any adjustments to the provisional purchase accounting will be recognized in 2006.

On 30th November 2005, EADS sold TDA - Armements S.A.S. to Thales. TDA – Armements S.A.S. was proportionally consolidated at 50% through the end of November 2005.

On 28th February 2005, EADS sold its enterprise telephony business, which comprised its civil telecommunication activities, to Aastra Technologies Limited.

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 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 75% subsidiary DADC (DADC Luft- und Raumfahrt Beteiligungs AG), acquired an additional 17.7% of the share capital of Dornier GmbH for €62 million, bringing its total stake in Dornier GmbH to 94%. Following further acquisitions in May 2005, EADS' share in Dornier GmbH was 97.11% at 31st December 2005.

See "Notes to Consolidated Financial Statements (IFRS) — Note 4: Acquisitions and disposals".

1.1.3.2 Fair Value Adjustments

The merger of the operations of Aerospatiale-Matra ("**ASM**"), DaimlerChrysler Aerospace ("**Dasa**") and Construcciones Aeronáuticas S.A. ("**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 impairment 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 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 Consolidated Financial Statements (IFRS) — Note 2: Summary of significant accounting policies — Impairment of assets" and "Note 12: Intangible assets".

The impairment of goodwill has an effect on profitability, as it is recorded in the line item "Other expenses" on EADS' consolidated statement of income. No goodwill was impaired in 2005, 2004 or 2003.

See "1.1.5 EADS Results of Operations — Consolidated Amortisation of Goodwill" and "Notes to Consolidated Financial Statements (IFRS) — Note 12: Intangible assets" and "Note 33: 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, an additional €165 million of product-related development costs were capitalised in accordance with IAS 38, including €152 million relating to the Airbus A380 programme. For 2005, an additional €293 million of product-related development costs were capitalised in the consolidated balance sheet in accordance with IAS 38, including an additional €259 million relating to the Airbus A380 programme.

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 a substantial portion of its costs is incurred in Euro and, to a lesser extent, Pounds Sterling. EADS uses hedging strategies to manage and minimise the impact of exchange rate fluctuations on its profits. See "1.1.8 Hedging Activities — Foreign Exchange Rates" and "1. Financial Market Risks — Exposure to Foreign Currencies".

Cash flow 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 'cash flow 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 cash flow 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 Total 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 Hedging Activities — Foreign Exchange Rates".

Cash flow 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.

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 retrospective 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 non-hedged 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 Consolidated Financial Statements (IFRS) — 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 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 EADS guarantees 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 Consolidated Financial Statements (IFRS) — Note 29: 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 finance 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 long-term financial assets, net of any accumulated impairments. See "Notes to Consolidated Financial Statements (IFRS) — Note 14: Investments in associates, other investments and long-term financial assets".

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 (as property, plant and equipment), the corresponding depreciation and potential impairment charges are recorded in cost of sales.

See "Notes to Consolidated Financial Statements (IFRS) — Note 13: 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 (as property, plant and equipment), 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 Consolidated Financial Statements (IFRS) — Note 13: Property, Plant and Equipment" and "Note 26: 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.

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 Consolidated Financial Statements (IFRS) — Note 29: 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 Consolidated Financial Statements (IFRS) — Note 21 (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 Consolidated Financial Statements (IFRS) — Note 13: Property, Plant and Equipment" and "Note 14: 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 (and the receipt, in most cases, of an advance payment). Commitments under defence "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.

Consolidated Backlog[(1)] for the Year Ended 31st December 2005, 2004 and 2003

	Year ended 31st December 2005		Year ended 31st December 2004		Year ended 31st December 2003	
	Amount in € bn	In percentage [(5)]	Amount in € bn	In percentage [(5)]	Amount in € bn	In percentage [(5)]
Airbus [(2)]	202.0	77%	136.0 [(4)]	70%	141.8	74%
Military Transport Aircraft	21.0	8%	19.9	10%	20.0	10%
Eurocopter [(3)]	10.0	4%	9.1	5%	8.7	5%
Defence & Security Systems	18.5	7%	17.3	9%	14.3	7%
Space	10.9	4%	11.3	6%	7.9	4%
Total Divisional Backlog	**262.4**	**100%**	**193.6**	**100%**	**192.7**	**100%**
Other Businesses [(3)]	2.1		1.1		1.1	
Headquarters / Consolidation	(11.3)		(10.4) [(4)]		(14.5)	
Total	**253.2**		**184.3**		**179.3**	

(1) *Without options.*

(2) *Based on catalogue prices for commercial aircraft activities.*

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

(4) *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 / Consolidation line) was reduced by approximately €4.0 billion as compared to 2003.*

(5) *Before "Other Businesses" and "Headquarters / Consolidation".*

The €69 billion increase in the 31st December 2005 order backlog reflects a record order intake at EADS in 2005 (representing a 110% increase over 2004) well in excess of revenues accounted for in the same year (8% increase over 2004). Also contributing to the increase was the effect of the stronger U.S. Dollar spot rate used for conversion of the non-hedged portion of the backlog into Euro.

The amounts recorded under "Headquarters / Consolidation" primarily reflect 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 effect of internal subcontracting (corresponding to the work share of other EADS divisions in the A400M) is therefore eliminated in EADS' consolidated order backlog.

Airbus' net order intake was 1,055 aircraft in 2005 (€78.3 billion), including 20 new orders for the A380, bringing the total firm order backlog for the A380 to 159 aircraft. These increases were bolstered by positive net foreign currency adjustments to the backlog, reflecting the year-end valuation of the non-hedged portion of Airbus' order backlog. At the end of 2005, Airbus' order backlog included 2,177 aircraft (as compared to 1,500 aircraft at the end of 2004).

The backlog of the Military Transport Aircraft Division increased from 2004, reflecting the strong order intake in 2005 (€1.8 billion) driven by the South African order of eight A400M aircraft and the Brazilian orders of twelve C-295s and eight upgraded P3 Orion aircraft. This order intake more than offset 2005 revenues, which were impacted by the shift of revenue recognition for the A400M programme until the first quarter of 2006 (with no anticipated impact on the overall programme schedule).

Backlog at the Eurocopter Division increased from 2004, with a €3.5 billion order intake (in excess of revenues) reflecting 401 total new orders, including 12 new orders for the NH90 from Australia and 6 new orders for the Tiger from Spain. 71% of the new orders originated from outside of EADS' home markets of France, Germany and Spain.

The DS Division's backlog increased by €1.2 billion from 2004, mainly reflecting an order intake of €6.7 billion driven by new orders for MEADS and other equipment for the Eurofighter Tranche 2.

The Space Division's backlog decreased by €0.4 billion in 2005, reflecting a "book to bill" ratio of less than one for 2005, following the recognition of revenues in 2005 in relation to the sizeable Ariane 5 launcher orders recorded in the division's backlog in 2004.

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 2005		Year ended 31st December 2004	
	Amount in € bn (1)	Percentage	Amount in € bn (1)	Percentage
Backlog:				
Commercial Sector	201	79%	135	73%
Defence Sector	52	21%	49	27%
Total	**253**	**100%**	**184**	**100%**

(1) *Including "Other Businesses" and "Headquarters / Consolidation".*

Management remains focused on the target of achieving €10 billion of defence-related revenues in 2007. In addition to organic growth, EADS may explore possible mergers and acquisitions in the defence sector.

1.1.4.2 Use of EBIT*

EADS uses earnings before interest and taxes, pre-goodwill impairment 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. There was no goodwill impairment in 2003, 2004 or 2005. 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' profit before finance costs and income tax (as reflected in EADS' IFRS consolidated statement of income) with EADS' EBIT*.

(in €m)	Year ended 31st December 2005	Year ended 31st December 2004 (2)	Year ended 31st December 2003
Profit before finance costs and income tax	2,712	2,215	747
Goodwill amortisation (1)	0	0	567
Exceptional depreciation (fixed assets)	136	212	214
Exceptional depreciation (inventories)	0	5	15
Others	4	0	0
EBIT*	2,852	2,432	1,543

(1) *In accordance with IFRS 3, as from the beginning of 2004, EADS no longer amortizes goodwill on a regular basis.*
(2) *As a result of the retrospective application of IFRS 2 "Share-based Payment", cost of sales (and, consequently, EBIT*) for 2004 was restated by €(12) million, representing the Group-level stock options expense for 2004.*

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.

(in €m)	Year ended 31st December 2005	Year ended 31st December 2004 (2)	Year ended 31st December 2003
Airbus	2,307	1,919	1,353
Military Transport Aircraft	48	26	30
Eurocopter (1)	212	201	160
Defence and Security Systems	201	226	171
Space	58	9	(400)
Total Divisional EBIT*	2,826	2,381	1,314
Other Businesses (1)	(171)	2	57
HQ / Consolidation (3)	197	49	172
EADS	2,852	2,432	1,543

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

(2) *As a result of the retrospective application of IFRS 2 "Share-based Payment", consolidated cost of sales (and, consequently, EBIT*) for 2004 was restated by €(12) million, representing the Group-level stock options expense for 2004.*

(3) *HQ / Consolidation primarily includes results from headquarters, which mainly includes "share of profit from associates" from EADS' investment in Dassault Aviation.*

2005 compared to 2004. EADS' consolidated EBIT* increased to €2.85 billion for 2005 from €2.43 billion for 2004, primarily reflecting stronger performance at Airbus.

Airbus' EBIT* increased to €2.3 billion for 2005 from €1.9 billion for 2004, reflecting (i) an increase in the number of aircraft delivered (378 in 2005, as compared to 320 in 2004) and (ii) operational efficiency gains resulting from the "Route 06" cost savings programme implemented in 2002 (totalling €400 million through year-end 2005). Partially offsetting these positive factors was a negative €(670) million exchange rate effect of generally less favourable rates of hedges maturing in 2005 as compared to 2004 (based on Airbus' 2005 compounded conversion rate of €-U.S.$1.04, as compared to €-U.S.$0.98 in 2004).

The MTA Division's EBIT* increased to €48 million for 2005 from €26 million for 2004, reflecting a reduction in research and development expense and the non-recurrence in 2005 of early retirement costs recorded in 2004.

EBIT* at the Eurocopter Division increased to €212 million for 2005 from €201 million for 2004, reflecting a 20% increase in deliveries (334 in 2005, as compared to 279 in 2004) and the effects of the first-time consolidation of Australian Aerospace. This volume impact was partially offset by a (i) negative effect from the U.S. Dollar, (ii) a negative mix effect, (iii) higher selling and general administrative expenses and (iv) increased R&D expenses for the EC175.

The DS Division's EBIT* decreased to €201 million for 2005 from €226 million for 2004 (which included the release of a €106 million provision relating to a concluded litigation with Thales). Despite improved operational performance at the division in 2005, ongoing unmanned aerial vehicles ("**UAV**") projects had a €100 million negative impact on 2005 EBIT*. Restructuring expenses were €53 million lower than in 2004, while research and development expenses were €22 million higher.

The Space Division's EBIT* increased to €58 million for 2005 from €9 million for 2004, primarily reflecting (i) the positive impact of operational efficiencies derived from prior years' restructuring efforts and (ii) the release of an allowance for receivables recorded in 2004 relating to Starsem.

Operational and impairment losses, as well as restructuring charges, at Sogerma in 2005 led to a €173 million decrease in EBIT* of Other Businesses as compared to 2004. The losses at Sogerma widened by €198 million and were partially offset by improved positive EBIT* at ATR, Socata and EFW.

Headquarters / Consolidation EBIT* increased to €197 million for 2005 from €49 million for 2004, primarily reflecting the increase in 'share of profit from associates' from EADS' investment in Dassault Aviation, including a positive €64 million catch-up of Dassault Aviation's 2004 IFRS results (as compared to a negative €(33) million catch-up in 2004), as well as gains from real estate disposals totalling €31 million.

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 €9 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 cash flow 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 Eurocopter Division increased to €201 million for 2004 from €160 million for 2003. The increase primarily reflects the ramp-up of the NH90 and Tiger programmes and the effect of a revaluation of fixed assets (€18 million).

The DS Division's EBIT* was €226 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 €9 million for 2004, a €409 million increase from 2003.

EBIT* of the Other Businesses decreased to €2 million for 2004 from €57 million for 2003. The decrease reflects EBIT* degradation in Sogerma's maintenance, repair and overhaul business, as well as the continuing downturn of the regional aircraft market.

The decrease of Headquarters / Consolidation EBIT* to €49 million for 2004, from €172 million for 2003, reflects the decrease in "share of profits from associates" 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).

Hedging Impact on EBIT*. Nearly two-thirds of EADS' consolidated revenues in 2005 were denominated 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 Hedging Activities — Foreign Exchange Rates" and "1. Financial Market Risks — Exposure to Foreign Currencies".

During 2005, cash flow hedges covering approximately U.S.$12.7 billion of EADS' U.S. Dollar-denominated revenues matured. In 2005, the compounded exchange rate at which hedged U.S. Dollar-denominated revenues were accounted for was €-U.S.$1.056, as compared to €-U.S.$0.987 in 2004. This difference resulted in a €720 million decrease in EBIT* from 2004 to 2005, of which approximately 90% was at Airbus.

During 2004, cash flow 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.

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 2005, and the average U.S. Dollar rates applicable to corresponding EBIT*.

	2006	2007	2008	2009	2010	2011	Total
Total Hedges (in U.S.$ bn)	**13.3**	**13.8**	**11.1**	**5.8**	**2.7**	**0.4**	**47.1**
Of which €-U.S.$	11.6	12.3	9.9	4.7	2.3	0.3	**41.1**
Of which £-U.S.$	1.7	1.5	1.2	1.1	0.4	0.1	**6.0**
Forward Rates (in U.S.$)							
€-U.S.$	1.11	1.13	1.12	1.12	1.18	1.13	
£-U.S.$	1.53	1.54	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 €62 million were recorded in the 2005 IFRS consolidated statement of income, decreasing from €129 million for 2004. For 2005, this included new provisions and current year charges primarily related to (i) the DS Division (€35 million, mainly MBDA) and (ii) restructuring at Sogerma (€27 million).

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

1.1.5 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 2005, 2004 and 2003

(in €m, except for EPS)	Year ended 31st December 2005	Year ended 31st December 2004	Year ended 31st December 2003
Revenues	34,206	31,761	30,133
Cost of sales	(27,530)	(25,522) (3)	(24,594)
Gross margin	**6,676**	**6,239 (3)**	**5,539**
Selling and administrative expenses	(2,183)	(2,119)	(2,162)
Research and development expenses	(2,075)	(2,126)	(2,189)
Other income	222	314	196
Other expense (1)	(153)	(177)	(256)
Goodwill amortisation (1) (2)	0	0	(567)
Share of profit from associates and other income (expense) from investments	225	84	186
Profit before finance costs and income taxes	**2,712**	**2,215**	**747**
Interest result	(155)	(275)	(203)
Other financial result	(22)	(55)	148
Income taxes	(825)	(664)	(474)
Profit for the period	**1,710**	**1,221 (3)**	**218**
Attributable to:			
Equity holders of the parent (**Net Income**)	**1,676**	**1,203 (3) (4)**	**206 (4)**
Minority interests	34	18 (4)	12 (4)
Earnings per share (basic) (in €)	**2.11**	**1.50 (3) (4)**	**0.26 (4)**
Earnings per share (diluted) (in €)	**2.09**	**1.50 (3) (4)**	**0.26 (4)**

(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" 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.*

(3) *The €(12) million effect of the retrospective application of IFRS 2 "Share-based Payment" is included in 2004 cost of sales.*

(4) *As a result of the first-time application in 2005 of revised IAS 32 "Financial Instruments: Disclosure and Presentation" as it relates to the option granted to BAE Systems' to put its 20% stake in Airbus to EADS, and in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the historical minority interests recorded in respect of such 20% stake have been replaced by the posting of a liability for puttable instruments and an adjustment to equity attributable to equity holders of the parent. As a consequence, EADS' net income now includes BAE Systems' 20% stake in Airbus. See "Notes to Consolidated Financial Statements (IFRS) — Note 2: Summary of significant accounting policies — IAS 32 Financial Instruments: Disclosure and Presentation (revised 2004)".*

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

Consolidated Revenues

Consolidated revenues for 2005 reached €34.2 billion, as compared to €31.8 for 2004. Revenues at Airbus, Eurocopter, the DS Division and the Space Division increased as compared to 2004.

Set forth below is a breakdown of EADS' consolidated revenues by division for the past three years.

(in €m)	Year ended 31st December 2005	Year ended 31st December 2004	Year ended 31st December 2003
Airbus	22,179	20,224	19,048
Military Transport Aircraft	763	1,304	934
Eurocopter (1)	3,211	2,786	2,611
Defence and Security			
Systems	5,636	5,385	5,165
Space	2,698	2,592	2,424
Total Divisional Revenues	**34,487**	**32,291**	**30,182**
Other Businesses (1)	1,155	1,123	1,221
HQ / Consolidation (2)	(1,436)	(1,653)	(1,270)
EADS	**34,206**	**31,761**	**30,133**

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

(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 2005	Year ended 31st December 2004	Year ended 31st December 2003
Single Aisle	289	233	233
Widebody	9	12	8
Long-Range	80	75	64
of which "Stretched"	*20*	*23*	*23*
Total	**378**	**320 (1)**	**305 (2)**

(1) *In 2004, revenues were recognized in the IFRS consolidated statement of income for only 316 of the 320 planes delivered.*

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

2005 compared to 2004. Airbus' 2005 consolidated revenues increased by 9.7%, to €22.2 billion from €20.2 billion for 2004, reflecting primarily the increase in aircraft deliveries recognized in revenues (378 in 2005 as compared to 316 in 2004). As in 2004, most of the deliveries in 2005 were for single-aisle A319 / A320 / A321 aircraft. Airbus delivered 56 more aircraft of this type in 2005 (289 aircraft) than in the previous year. Deliveries of long-range aircraft increased from 75 in 2004 to 80 in 2005.

Offsetting these positive factors was an approximate €(1.65) billion negative impact resulting primarily from the continued decline of the hedge rates used to convert payments upon deliveries for the portion of such payments which was hedged. 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 Hedging Activities — Foreign Exchange Rates" and "1. Financial Market Risks — Exposure to Foreign Currencies".

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 (316 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.

Military Transport Aircraft

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

Number of aircraft	Year ended 31st December 2005	Year ended 31st December 2004	Year ended 31st December 2003
C-212	2	2	2
CN-235	1	4	7
C-295	10	6	5
Total	**13**	**12**	**14**

For 2005, consolidated revenues of the MTA Division decreased by 41%, from €1.3 billion for 2004 to €0.8 billion for 2005. The decrease primarily reflects the negative €(0.5) billion impact of the shift of revenue recognition for the A400M programme until the first quarter of 2006, with no anticipated impact on the overall programme schedule.

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).

Eurocopter

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

Number of aircraft	Year ended 31st December 2005	Year ended 31st December 2004	Year ended 31st December 2003
Eurocopter	334	279	297
Light	*183*	*157*	*170*
Medium	*121*	*102*	*108*
Heavy	*18*	*18*	*19*
Tiger	*12*	*2*	*0*

For 2005, consolidated revenues of the Eurocopter Division increased by 15%, from € 2.8 billion for 2004 to €3.2 billion for 2005, primarily reflecting shipsets for the Tiger and NH90 helicopters, and the increase in serial helicopter deliveries. The first-time consolidation of the Australian subsidiary also had a net positive effect on the Eurocopter Division's 2005 revenues.

For 2004, the Eurocopter Division generated consolidated revenues of €2.8 billion, an increase of 7% from €2.6 billion for 2003. Increased revenues generated by Eurocopter's customer support services and the increased revenues from achievement of percentage-of-completion milestones for the NH90 and Tiger helicopters offset the effect of fewer helicopter deliveries in 2004.

Defence & Security Systems

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

Number of aircraft	Year ended 31st December 2005	Year ended 31st December 2004	Year ended 31st December 2003
Eurofighter	18	9	7

For 2005, the DS Division generated consolidated revenues of €5.6 billion, as compared to €5.4 billion for 2004. The slight increase is mainly attributable to continued Eurofighter deliveries by the Military Air Systems BU, as well as the ramp-up of the MBDA missile business.

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, and ASRAAM missile programs.

Space

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

	Year ended 31st December 2005	Year ended 31st December 2004	Year ended 31st December 2003
Commercial Telecommunications Satellites	4	3	1

For 2005, the Space Division generated consolidated revenues of €2.7 billion, as compared to €2.6 billion for 2004. The slight increase reflects increased telecommunications satellite deliveries and the further ramp-up of Ariane 5 production, as well as a modest increase in revenues from the Paradigm business at space services.

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.

Consolidated Cost of Sales

For 2005, consolidated cost of sales increased to €27.5 billion from €25.5 billion for 2004. Gross margin remained relatively unchanged as compared to 2004 at 19.5%.

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 19.6% in 2004, reflecting the effects of higher deliveries at Airbus and major restructuring activities at the Space Division in 2003.

Consolidated Selling and Administrative Expenses

For 2005, consolidated selling and administrative expenses increased slightly, from €2.1 billion for 2004 to €2.2 billion for 2005, primarily reflecting an overall increase in selling activities across most of EADS' businesses.

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 BUs and the ongoing effects from restructuring of EADS' general and administrative activities.

Consolidated Research and Development Expenses

For 2005, EADS' consolidated research and development expenses remained unchanged as compared to 2004 at €2.1 billion. A380-related research and development ("**R&D**") expense in the IFRS consolidated statement of income decreased from its peak of €1,082 million for 2003 to €813 million for 2005 (as compared to €983 million for 2004). On the whole, Airbus R&D expense recorded in the IFRS consolidated statement of income decreased by €75 million from 2004 levels. Other consolidated R&D expenses outside Airbus totalled €416 million — an increase of €24 million from 2004 resulting mainly from the development of (i) Eurocopter's EC175 programme in China and (ii) Military Air Systems' ISR business. These changes reflect in part the application of IAS 38 at EADS, which resulted in the capitalisation of an additional €293 million of R&D in 2005, of which €259 million related to Airbus for the A380. See "1.1.3 Critical Accounting Considerations, Policies and Estimates — Research and Development Expenses".

For 2004, 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 an additional €165 million of R&D, of which €152 million related to Airbus for the A380. Overall, 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.

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 2005, the net of other income and other expense was positive €69 million as compared to positive €137 million for 2004, primarily reflecting the non-recurrence of the €106 million release of a provision in the DS Division relating to the Thales Euromissiles litigation reported in consolidated other income for 2004.

For 2004, the net of other income and other expense was positive €137 million as compared to negative €(60) million for 2003, reflecting primarily the impact of the €106 million provision release in the DS Division included in consolidated other income for 2004.

Consolidated Amortisation of Goodwill

As a result of EADS' early adoption of IFRS 3 / IAS 36 revised, goodwill is no longer amortized on a regular basis as from 1st January 2004, but subject to annual impairment testing. Consolidated amortisation of goodwill for 2003 was €0.6 billion. No goodwill-related impairment charges were recorded for 2003, 2004 or 2005.

Consolidated Share of Profit from Associates and Other Income (Expense) from Investments

Consolidated share of profit from associates and other income (expense) from investments principally includes results from companies accounted for under the equity method and the results attributable to non-consolidated investments.

For 2005, EADS recorded €225 million in consolidated share of profit from associates and other income (expense) from investments as compared to €84 million for 2004. The €141 million increase primarily reflects the results of EADS' equity investment in Dassault Aviation, including a €64 million positive catch-up in 2005 of 2004 income related to EADS' investment in Dassault Aviation, versus a negative €(33) million catch-up in 2004.

For 2004, EADS recorded €84 million in consolidated share of profit from associates and other income (expense) from investments 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.

As from 1st January 2005, Dassault Aviation is publishing its financial statements in accordance with IFRS. See "Notes to Consolidated Financial Statement (IFRS) — Note 9: Share of profit from associates and other income (expense) from investments".

Consolidated Interest Result

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

For 2005, EADS reported a consolidated net interest expense of €155 million, as compared to €275 million of consolidated net interest expense for 2004. The improvement in consolidated net interest result primarily reflects the improving net cash position of EADS as well as the increased interest income from sales financing. See "1.1.7 Liquidity and Capital Resources — Consolidated Financial 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".

Consolidated Other Financial Result

For 2005, consolidated other financial result increased to negative €(22) million from negative €(55) million for 2004. This positive €33 million change primarily results from the €147 million positive effect in 2005 from valuation changes of U.S. Dollar-denominated cash balances on the Euro- or British Pound-denominated balance sheets of Group companies, which had generated negative other financial results in 2004. This positive factor was partially offset by a negative €(108) million effect from the mark-to-market valuation of "embedded derivatives". "Embedded derivatives" are financial instruments that, for accounting purposes, are deemed to be embedded in U.S. Dollar-denominated purchase orders of equipment, where the U.S. Dollar is not conclusively the currency in which the price of the related equipment is routinely denominated in international commerce and is not the functional currency of the parties to the transaction.

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 €(10) million effect from the mark-to-market valuation of embedded derivatives and (iii) interest accrued on tax audit expenses in 2004.

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 33% in 2005. See "Notes to Consolidated Financial Statements (IFRS) — Note 11: Income taxes".

Consolidated Minority Interests

For 2005, consolidated minority interests were €34 million, as compared to €18 million for 2004, reflecting primarily the interests of Finmeccanica (€24 million) and DaimlerChrysler Luft – und Raumfahrt Holding AG ("**DCLRH**") (€11 million) in the results of MBDA and EADS Germany GmbH, respectively. The 20% share of BAE Systems in Airbus' net income was restated in accordance with the application of IAS 32 "Financial Instruments: Disclosure and Presentation", resulting in a €185 million adjustment to minority interests in 2004. As from 1st January 2005, consolidated minority interests no longer includes BAE Systems' 20% ownership in Airbus. See "1.1.3 Critical Accounting Considerations, Policies and Estimates — Scope of and Changes in Consolidation Perimeter" and "Notes to Consolidated Financial Statements (IFRS) — Note 2: Summary of significant accounting policies — IAS 32 Financial Instruments: Disclosure and Presentation".

For 2004, consolidated minority interests were €18 million, as compared to €12 million for 2003, reflecting primarily the interests of Finmeccanica (€21 million) in the results of MBDA.

Consolidated Net Income (Profit for the Period Attributable to Equity Holders of the Parent)

As a result of the factors discussed above, EADS recorded consolidated net income of €1,676 million for 2005 as compared to consolidated net income of €1,203 million for 2004 and a consolidated net income of €206 million for 2003.

In 2005, net income for 2004 and 2003 was restated to reflect the retrospective application of IAS 32 "Financial Instruments: Disclosure and Presentation" in respect of BAE Systems' put option for its 20% stake in Airbus. Additionally, net income for 2004 was restated to reflect the retrospective application of IFRS 2 "Share-based Payments", which required the recognition of an expense in respect of employee stock option plans.

The table below illustrates the adjustments made to 2003 and 2004 net income as a result of the application of the accounting principles described in the preceding paragraph.

(in €m)	Year ended 31st December 2005	Year ended 31st December 2004	Year ended 31st December 2003
Reported Consolidated Net Income (Loss)	1,676	1,030	152
IFRS 2 Restatement	-	(12)	-
IAS 32 Restatement	-	185	54
Restated Consolidated Net Income [(1)]	1,676	1,203	206

(1) *2005 consolidated net income reflects a positive €289 million impact from the application of revised IAS 32 "Financial Instruments: Disclosure and Presentation" and a negative €(33) million impact from the application of IFRS 2.*

Earnings per Share (EPS)

Basic earnings per share increased by €0.61 per share, from €1.50 per share in 2004 (after the restatement of net income described above) to €2.11 per share in 2005. The number of outstanding shares at 31st December 2005 was 797,140,426. The denominator used to calculate EPS was 794,734,220 shares, reflecting the weighted average number of shares outstanding during the year. In 2003, EADS reported basic earnings per shares of €0.26 (after the restatement of net income described above).

Diluted earnings per share increased by €0.59 per share, from €1.50 per share in 2004 (after the restatement of net income described above) to €2.09 per share in 2005. The denominator used to calculate diluted EPS was 800,216,353, reflecting the weighted average number of shares outstanding during the year, adjusted to assume the conversion of all potential ordinary shares. In 2003, EADS reported diluted earnings per shares of €0.26 (after the restatement of net income described above). See "Notes to Consolidated Financial Statements (IFRS) — Note 20: Total equity" and "Note 35: Earnings per share".

1.1.6 Statement of Changes in Consolidated Total Equity (including Minority Interests)

The following table sets forth a summary of the statement of changes in consolidated total equity for the period 1st January 2005 through 31st December 2005.

(in €m)	
Balance at 31st December 2004	**16,354** (1)
Capital increase	187
Share-based payments	33
Profit for the period	1,710
Cash distribution to shareholders	(396)
Purchase of treasury shares	(288)
Accumulated other comprehensive income	(3,698)
thereof currency translation adjustments	*(58)*
Balance at 31st December 2005	**13,902**

(1) *The balance of consolidated total equity at 31st December 2004 reflects the application of revised IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 16 "Property, plant and equipment". See "Notes to Consolidated Financial Statements (IFRS) — Note 2: Summary of significant accounting policies".*

The decrease in consolidated total equity in 2005 primarily reflects the effects of changes in accumulated other comprehensive income ("**AOCI**"), partly offset by the year's higher net income. Set out below is a discussion of AOCI and its impact on consolidated total equity. For a discussion of the other line items impacting consolidated total equity, see "Notes to Consolidated Financial Statement (IFRS) — Note 20: Total equity".

In 2005, AOCI decreased by €3,698 million. The change in AOCI was due to the negative variation (after accounting for deferred taxes) of the year-end mark-to-market valuation of that portion of EADS' hedge portfolio qualifying for hedge accounting under IAS 39.

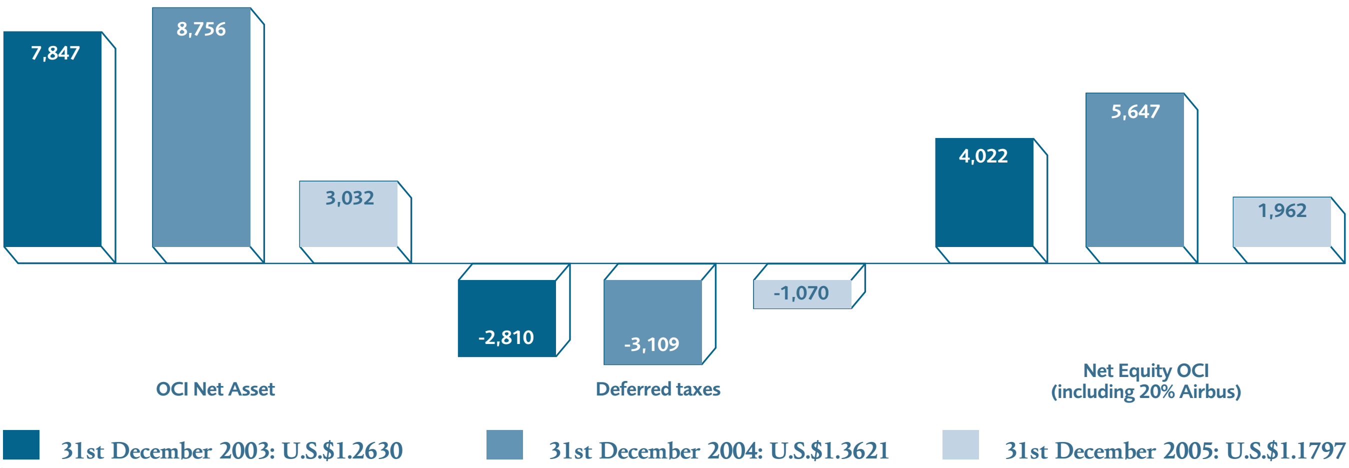
IAS 39 Related Impact on AOCI

At 31st December 2005, the notional amount of the outstanding portfolio of hedges qualifying for IAS 39 hedge accounting treatment ("**cash flow hedges**") amounted to approximately U.S.$47.1 billion hedged against the Euro and the Pound Sterling. The year-end mark-to-market valuation of EADS' portfolio of cash flow hedges resulted in a negative valuation change of €5.7 billion from 31st December 2004, based on a closing rate of €-U.S.$1.18, as compared to 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 cash flow hedges are included in other assets, while negative pre-tax mark-to-market values of cash flow hedges are included in provisions for financial instruments. Year-to-year changes in the mark-to-market value of cash flow hedges are recognised as adjustments to AOCI. These adjustments to AOCI are net of corresponding changes to deferred tax assets (for cash flow hedges with negative mark-to-market valuations) and deferred tax liabilities (for cash flow hedges with positive mark-to-market valuations).

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

Related movements in AOCI over the past three years in €m



As a result of the negative change in the fair market valuation of the cash flow hedge portfolio in 2005, AOCI-related net assets decreased to €3.0 billion for 2005 from €8.8 billion for 2004. The corresponding €2.0 billion tax effect decreased the AOCI-related deferred tax liability to €1.1 billion at 31st December 2005.

Currency Translation Adjustment Impact on AOCI

The negative €(58) million currency translavtion adjustment (CTA) related impact on AOCI in 2005 reflects the consequences (negative €(237) million) of the merger of Airbus *Groupement d'intérêt économique* ("**Airbus GIE**") (a U.S. Dollar-denominated entity) into Airbus SAS (a Euro-denominated entity), which were mostly offset by the positive effects of the strengthening U.S. Dollar. 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.

1.1.7 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 €10.6 billion of consolidated gross cash (including securities of €1.0 billion) at 31st December 2005. This cash position is further supported by a €3.0 billion syndicated back-up facility. Overall, financial liabilities (short and long-term) amounted to €5.1 billion at 31st December 2005.

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 2005 was €5.5 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 2005**	**Year ended 31st December 2004**
Consolidated net cash position at 1st January	**3,961**	**3,105**
Adjustment for changed treatment of embedded leases (1)	–	(97)
Adjusted consolidated net cash position at 1st January	**3,961**	**3,008**
Gross cash flows from		
Operations (2)	3,868	2,858
Changes in other operating assets and liabilities	1,239	2,155
thereof change in European refundable advances	*(103)*	*2*
Cash used for investing activities (3)	(2,694)	(3,399)
thereof industrial capital expenditures	*(2,818)*	*(3,017)*
thereof customer financing	*174*	*(188)*
thereof others	*(50)*	*(194)*
Treasury share buy-back	(288)	(81)
Cash distribution to shareholders	(396)	(320)
Payment related to liability for puttable instruments (4)	(93)	(64)
Capital increase	187	43
Other changes in financial Position	(295)	(239)
thereof financial liabilities non-recourse to EADS	*(121)*	(369)
Consolidated net cash position at 31st December	**5,489**	**3,961**
Free Cash Flows (3)	**2,413**	**1,614**
thereof Free Cash Flows before customer financing	*2,239*	*1,802*

(1) *Embedded leases accounted for as financial liabilities.*
(2) *Represents cash flow from operations, excluding variations in working capital.*
(3) *Does not reflect (i) investments in, or disposals of, available-for-sale securities (disposal of €10 million for 2004; investment of €559 million for 2005), 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; €12 million for 2005); or (iii) increase in customer financing when it is non-recourse to EADS (€(369) million for 2004; €(121) million for 2005).*
(4) *Represents dividend paid to BAE Systems in respect of its 20% stake in Airbus.*

The consolidated net cash position at 31st December 2005 was €5,489 million, a 38.6% increase from 31st December 2004. The increase reflects (i) improved profit on a higher number of deliveries at Airbus, (ii) an optimization of working capital through the receipt of pre-delivery payments in line with growth in the order book and increasing near-term deliveries, (iii) the effects of an ongoing Company-wide focus on cash management and (iv) the positive cash impact of customer financing activities (sell-downs). These positive factors were partly offset by (i) the €3.3 billion inventory build-up (in particular for the A380 and A400M programmes), (ii) on-going capital expenditures at Airbus, MTAD and the Space Division, (iii) the €396 million cash distribution to shareholders and (iv) the buyback of shares for €268 million.

Gross Cash Flows from Operations

Gross cash flows from operations increased by €1,010 million to €3,868 million for 2005, primarily as a result of the higher earnings generated during the year (an increase over 2004 of €473 million, before minority interests).

Changes in Other Operating Assets and Liabilities (Working Capital)

Working capital is comprised of trade receivables, inventory, other assets and prepaid expenses netted against trade liabilities, other liabilities (including customer advances) and deferred income.

Changes in working capital resulted in a positive impact on the net cash position for 2005 (€1.2 billion) and 2004 (€2.2 billion). The main net contributor to the positive working capital variation was the further inflow of overall pre-delivery payments from customers (approximately €4.2 billion in 2005, as compared to €1.8 billion in 2004), partially offset by the change in gross inventory (approximately €(3.3) billion in 2005 and €0.4 billion in 2004), primarily reflecting the ramp-up of Airbus production of the A380.

European Government Refundable Advances. As of 31st December 2005, total European government refundable advances received, recorded on the balance sheet in the line item "other liabilities", amounted to €5.3 billion, including accrued interest.

For 2005, new receipts of European government refundable advances totalled €0.4 billion and reimbursements totalled €0.5 billion. Related accrued interest for 2005 of €0.24 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 outstanding, by product / project.

(in € bn)	2005	2004
Long Range & Wide Body	1.8	2.0
A380	2.8	2.5
Eurocopter	0.2	0.2
Others	0.5	0.4
EADS	**5.3**	**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 €2.8 billion for 2005 as compared to €3.0 billion for 2004. A380-related capital expenditure totalled €0.8 billion for 2005, as compared to €1.3 billion for 2004 (including capitalized research and development costs). See "Part 2 / 1.1.2 Airbus — Products and Services". To date, total A380-related capital expenditures is €4.5 billion, including the capitalisation of certain prototypes for approximately €0.3 billion.

The remaining portion of capital expenditures related to other programmes at Airbus of €1.0 billion (including €0.2 million for the A400M programme) and additional programmes in the other divisions of €1.0 billion, including the build-up of Skynet 5 satellites 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 2006 to 2007, 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. See "Part 2 / 1.1.2 Airbus — Products and Services".

Customer Financing. Consolidated cash flows generated by customer financing amounted to €174 million for 2005. EADS aims to structure financing so as to facilitate the future sell-down or reduction of its exposure. The cash inflow of €174 million primarily results from the payments received on sell-downs and repayments of outstanding finance leases and loans over the course of the year more than offsetting additions to customer sales financing. See "Sales Financing".

Others. For 2005, the negative €(50) million figure primarily reflects net investments in subsidiaries, including the acquisition of the Nokia PMR business.

Free Cash Flows

As a result of the factors discussed above, positive free cash flows amounted to €2.4 billion for 2005, as compared to €1.6 billion for 2004. Positive free cash flows before customer financing were €2.2 billion for 2005 as compared to €1.8 billion for 2004.

Other Changes in Financial Position

In 2004 and 2005, the cash outflows of €(239) million and €(295) million, respectively, 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 Hedging Activities — Interest Rates" and "Notes to Consolidated Financial Statements (IFRS) — Note 30a: Information about Financial Instruments — Financial risk management".

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.

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 €4.0 billion. However, EADS' stake therein is only 80%. Similarly, total cash and cash equivalents includes €0.9 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 2005:

	31st December 2005			
(in €m)	**Not Exceeding 1 year**	**Over 1 year up to 5 years**	**More Than 5 years**	**Total**
Finance Leases [(1)]	87	163	78	**328**
Bonds	0	140	1,519	**1,659**
Liabilities to financial institutions	146	380	972	**1,498**
Liabilities to affiliated companies	112	0	0	**112**
Loans	207	409	528	**1,144**
Other	356	0	0	**356**
Total	**908**	**1,092**	**3,097**	**5,097** [(2)]

(1) *This figure reflects the €1,102 million effect of the netting of defeased bank deposits against sales financing liabilities.*
(2) *Financial liabilities include non-recourse Airbus debt for €1,247 million.*

The outstanding balance of financial liabilities decreased slightly from €5.2 billion at 31st December 2004 to €5.1 billion at 31st December 2005.

Total financial liabilities include the full consolidation of Airbus financial debt for an amount of €2.7 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 programme, which was swapped during 2005 into a variable rate of three-month EURIBOR plus 1.81%. The objectives of the two issuances under the EMTN programme 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.

European Investment Bank Loan. In 2004, the European Investment Bank granted EADS a long-term loan in the amount of U.S.$421 million at an interest rate of 5.1%.

As a policy matter, EADS 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.

Approximately 40% of the €5.1 billion of total consolidated financial liabilities as at 31st December 2005, are derived from the funding of EADS' sales financing assets, which are of a long-term nature and have predictable payment schedules. The increase from 36% of total financial liabilities in 2004 reflects the effects of the strengthening U.S. Dollar on these U.S. Dollar-denominated liabilities. The following table presents a breakdown of consolidated financial liabilities related to sales financing:

(in €m)	Principal Amount Outstanding 2005	Principal Amount Outstanding 2004
Finance Leases (1)	118	270
Liabilities to financial institutions	1,074	844
Loans	882	780
Total Sales Financing Liabilities	**2,074**	**1,894**

(1) *These figures reflect the effect (€1,102 million in 2005; €1,089 million in 2004) of the netting of defeased bank deposits against sales financing liabilities.*

The amounts of total sales financing liabilities at 31st December 2005 and 2004 reflect the offsetting of sales financing liabilities by €1.1 billion (for 2005) and €1.1 billion (for 2004) of defeased bank deposits securing such liabilities. Of the remaining €2.1 billion total sales financing liabilities at 31st December 2005, €1.2 billion is in the form of non-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 Consolidated Financial Statements (IFRS) — Note 22: 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.

EADS classifies the exposure 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. Financial 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 2005 is spread over approximately 150 aircraft, operated at any time by approximately 36 airlines. In addition, other aircraft related assets, such as spare parts, may also serve as collateral security. 59% of Airbus Financing Gross Exposure is distributed over five airlines in four countries, not taking backstop commitments into account.

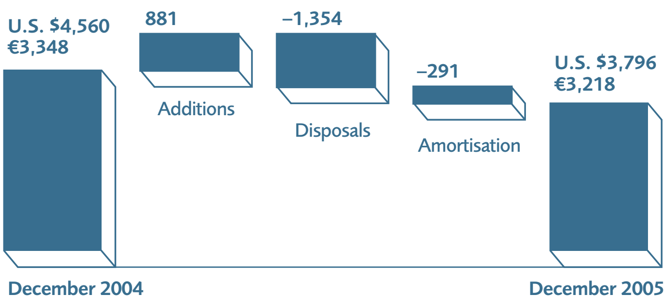
ATR Customer Financing Gross Exposure as of 31st December 2005 is distributed over 190 aircraft.

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, finance 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 37% from its 1998 peak of U.S.$6 billion, to U.S.$3.8 billion (€3.2 billion) as of 31st December 2005, while the Airbus fleet in operation has increased from 1,838 aircraft to 3,956 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 2005 (in millions).

Evolution of Airbus Gross Exposure during 2005



ATR 100% has reduced gross exposure by approximately 54% from a peak of U.S.$1.8 billion in 1997 to U.S.$0.8 billion (€0.7 billion) as of 31st December 2005.

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 2006.

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 2005 and 2004. It includes 100% of Airbus' customer financing exposure and 50% of ATR's exposure, reflecting EADS' stake in ATR.

(in €m)	Note*	Airbus 100% 12 / 31 / 2005	Airbus 100% 12 / 31 / 2004	ATR 50% 12 / 31 / 2005	ATR 50% 12 / 31 / 2004	Total EADS 12 / 31 / 2005	Total EADS 12 / 31 / 2004
Operating Lease	13	1,308	1,835	185	146	1,493	1,981
Finance leases and loans	14	1,616	2,044	25	22	1,641	2,066
Others		1,019		96	119	1,115	119
On Balance sheet customer financing		3,943	3,879	306	287	4,249	4,166
Off Balance sheet customer financing	29	846	732	42	46	888	778
Non-recourse transactions on balance sheet		(1,327)	(1,135)			(1,327)	(1,135)
Off balance sheet adjustments		(244)	(128)			(244)	(128)
Gross customer financing exposure	29	**3,218**	**3,348**	**348**	**333**	**3,566**	**3,681**
Collateral Values	29	(1,819)	(1,916)	(314)	(300)	(2,133)	(2,216)
Net exposure		**1,399**	**1,432**	**34**	**33**	**1,433**	**1,465**
Impairment and provisions							
On Operating Lease	13	(319)	(532)	0	0	(319)	(532)
On Finance Lease & loans	14	(396)	(466)	0	0	(396)	(466)
On Inventories	15	0	(1)	0	0	0	(1)
On assets held for sale	19	(196)	0	0	0	(196)	0
On On balance sheet customer financing	21	0	0	(34)	(33)	(34)	(33)
On Off balance sheet commitments	29	(488)	(433)	0	0	(488)	(433)
Asset impairments and Provisions		**(1,399)**	**(1,432)**	**(34)**	**(33)**	**(1,433)**	
Residual exposure		-	-	-	-	-	-

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

The gross value of consolidated operating leases shown in the table above (€1,493 million in 2005 and €1,981 million in 2004) is accounted for in 'Property, Plant and Equipment' at net book value of operating leases before impairment. Corresponding asset impairments (€319 million in 2005 and €532 million in 2004) are charged against this net book value. See "Notes to Consolidated Financial Statements (IFRS) — Note 13: Property, Plant and Equipment" and "Note 29: Commitments and contingencies".

Also shown in the table above is the gross value for consolidated finance leases and loans (€1,641 million in 2005 and €2,066 million in 2004). Consolidated finance leases (€924 million in 2005 and €1,120 million in 2004) are accounted for as long-term financial assets, recorded at their net book value before impairment. Loans (€717 million in 2005 and €946 million in 2004) are also accounted for as long-term financial assets, recorded at their outstanding gross amount. Corresponding overall asset impairment (€396 million in 2005 and €466 million in 2004) is charged against the net book value. See "Notes to Consolidated Financial Statements (IFRS) — Note 14: Investments in associates, other investments and long-term financial assets".

Off-balance sheet customer financing exposure at Airbus and 50% ATR was €888 million in 2005 and €778 million in 2004. These amounts reflect the total nominal value of future payments under lease in / lease out structures. The year-to-year increase mostly reflects the impact of the strengthening 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 €644 million in 2005 and €650 million in 2004.
A provision of €488 million exists in EADS' balance sheet as of 31st December 2005 to cover the full amount of the corresponding net exposure. See "Notes to Consolidated

Financial Statements (IFRS) — Note 29: 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 2019, 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 2006 will generally not be exercisable prior to 2016, 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 2005, Airbus Gross Asset Value Exposure (discounted present value of future guaranteed tranches) was U.S.$3.0 billion (€2.6 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 €1,054 million, excluding €507 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 €647 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 Consolidated Financial Statements (IFRS) — Note 21(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.

See "Notes to Consolidated Financial Statements (IFRS) — Note 29: Commitments and contingencies" for further discussion of EADS' sales financing policies and accounting procedures.

1.1.8 Hedging Activities

1.1.8.1 Foreign Exchange Rates

A significant portion of EADS' revenues are denominated in U.S. Dollars (approximately U.S.$25 billion for 2005), 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. Financial 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 €0.7 billion at year-end 2005) to adjust for short-term fluctuations of non-Euro cash balances at the BU 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 Eurocopter Division, ATR, the DS Division and the MTA 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, to a lesser extent, 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:

Year ended 31st December 2005	**Remaining period**			
(in €m)	**Not exceeding 1 year**	**1 year up to 5 years**	**More than 5 years**	**Total**
Foreign Exchange Contracts:				
Net forward sales contracts	9,653	27,076	365	**37,094**
Structured USD forward:				
Purchased USD call options	119	573	0	**692**
Purchased USD put options	1,495	1,190	0	**2,685**
Written USD call options	1,495	1,190	0	**2,685**
FX swap contracts	625	0	117	**742**

1.1.8.2 Interest Rates

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 (such as the notes issued under the EMTN programme and those relating to the financing of Paradigm) 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.

Year ended 31st December 2005	**Remaining period**			
(in €m)	**Not exceeding 1 year**	**1 year up to 5 years**	**More than 5 years**	**Total**
Interest rate swaps and caps	105	2,504	2,921	**5,530**

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 Registration Documents.

1.2 Financial Statements

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

- the consolidated financial statements and the statutory financial statements of EADS for the year ended 31st December 2003 as included in "Part 1 / 1.2 Financial Statements" of the *Document de Référence* filed in French with the *Autorité des marchés financiers* on 1st April 2004 and filed in English with the Chamber of Commerce of Amsterdam; and
- the consolidated financial statements (IFRS) and the financial statements (Dutch GAAP) of EADS for the year ended 31st December 2004 as included in "Part 1 / 1.2 Financial Statements" of the *Document de Référence* filed in French with the *Autorité des marchés financiers* on 19th April 2005 and filed in English with the Chamber of Commerce of Amsterdam.

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

EADS confirms that the reports of the auditors set forth in sections 1.2.1 and 1.2.2 below (as well as those incorporated by reference herein) have been accurately reproduced and that as far as EADS is aware and is able to ascertain from the information provided by the auditors, no facts have been omitted which would render such reports inaccurate or misleading.

1.2.1 Consolidated Financial Statements (IFRS)

Consolidated Income Statements (IFRS) for the years 2005, 2004 and 2003

(in €m)	Note	2005	2004	2003
Revenues	5, 6	**34,206**	**31,761**	**30,133**
Cost of sales	7	(27,530)	(25,522) (1)	(24,594)
Gross margin		**6,676**	**6,239**	**5,539**
Selling expenses		(832)	(798)	(776)
Administrative expenses		(1,351)	(1,321)	(1,386)
Research and development expenses		(2,075)	(2,126)	(2,189)
Other income	8	222	314	196
Other expenses		(153)	(177)	(823)
thereof goodwill amortisation	12	*0*	*0*	*(567)*
Share of profit from associates	9	210	88	224
Other income (expense) from investments	9	15	(4)	(38)
Profit before finance costs and income taxes	5	**2,712**	**2,215**	**747**
Interest result		(155)	(275)	(203)
Other financial result		(22)	(55)	148
Total finance costs	10	(177)	(330)	(55)
Income taxes	11	(825)	(664)	(474)
Profit for the period		**1,710**	**1,221**	**218**
Attributable to:				
Equity holders of the parent **(Net Income)**		1,676	1,203 (1) (2)	206 (2)
Minority interests		34	18 (2)	12 (2)
		1,710	**1,221**	**218**
Earnings per share		**€**	**€**	**€**
Basic	35	2.11	1.50 (1) (2)	0.26 (2)
Diluted	35	2.09	1.50 (1) (2)	0.26 (2)
Cash distribution per share (2005: proposal)	20	**0.65**	**0.50**	**0.40**

(1) *For the retrospective application of IFRS 2 "Share-based Payment" please refer to "Changes in accounting policy" in Note 2.*

(2) *For the retrospective application of IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) regarding the liability for puttable instruments please refer to "Changes in accounting policy" in Note 2.*

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

Consolidated Balance Sheets (IFRS)

		31st December	
(in €m)	**Note**	**2005**	**2004**
Assets			
Non-current assets			
Intangible assets	12	11,052	10,549 (1)
Property, plant and equipment	13	13,817	12,797 (1)
Investment property	33	134	159
Investments in associates	14	1,908	1,738
Other investments and long-term financial assets	14	1,938	2,110
Non-current other assets	17	3,610	7,096 (1)
Deferred tax assets	11	2,557	2,548 (1)
Non-current securities	18	1,011	466
		36,027	**37,463**
Current assets			
Inventories	15	15,425	12,334 (1)
Trade receivables	16	4,802	4,406
Current portion of long-term financial assets	14	237	242 (1)
Current other assets	17	3,201	4,697 (1)
Current tax assets		237	303
Current securities	18	29	0 (1)
Cash and cash equivalents		9,546	8,718
		33,477	**30,700**
Non-current assets classified as held for sale	19	**881**	**0**
Total assets		**70,385**	**68,163**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Capital stock		818	810
Reserves		9,371	7,899 (1)
Accumulated other comprehensive income		3,982	7,678 (1)
Treasury shares		(445)	(177)
		13,726	**16,210**
Minority interests		176	144 (1)
Total equity	20	**13,902**	**16,354**
Non-current liabilities			
Non-current provisions	21	6,879	6,074 (1)
Long-term financial liabilities	22	4,189	4,405 (1)
Non-current other liabilities	24	9,971	8,777 (1)
Deferred tax liabilities	11	2,376	4,134
Non-current deferred income	26	1,324	1,490 (1)
		24,739	**24,880**
Current liabilities			
Current provisions	21	2,727	2,350
Short-term financial liabilities	22	908	818 (1)
Liability for puttable instruments	23	3,500	3,500 (1)
Trade liabilities	25	6,634	5,860
Current other liabilities	24	17,166	13,722 (1)
Current tax liabilities		174	178
Current deferred income	26	573	501 (1)
		31,682	**26,929**
Liabilities directly associated with non-current assets classified as held for sale	19	**62**	**0**
Total liabilities		**56,483**	**51,809**
Total equity and liabilities		**70,385**	**68,163**

(1) *For retrospective adjustments please refer to "Changes in accounting policy" in Note 2 and the relevant section of the notes.*

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

Consolidated Statements of Cash Flows (IFRS)

(in €m)	Note	2005	2004	2003
Profit for the period attributable to equity holders of the parent (Net income)		**1,676**	**1,203** (1) (2)	**206** (2)
Profit for the period attributable to minority interests		34	18 (2)	12 (2)
Adjustments to reconcile Net income to cash provided by operating activities:				
Depreciation and amortisation		1,653	1,621	2,375
Valuation adjustments and CTA release		261	(188) (1)	263
Deferred tax expenses (income)		386	537	(138)
Results on disposal of non-current assets		(170)	(8)	(50)
Results of companies accounted for by the equity method		(210)	(88)	(224)
Change in current and non-current provisions and current tax assets / liabilities		238	(237)	246
Change in other operating assets and liabilities:		**1,239**	**2,155**	**2,019**
- Inventories		(3,264)	366 (3)	(551) (3)
- Trade receivables		(388)	(403)	168
- Trade liabilities		666	756	116
- Other assets and liabilities		4,225	1,436 (3)	2,286 (3)
Cash provided by operating activities		**5,107**	**5,013**	**4,709**
Investments:				
- Purchase of intangible assets, Property, plant and equipment		(2,818)	(3,017)	(2,672)
- Proceeds from disposals of intangible assets, Property, plant and equipment		101	36	47
- Acquisitions of subsidiaries (net of cash)	27	(131)	(100)	(92)
- Proceeds from disposals of subsidiaries (net of cash)		89	0	32
- Payments for investments in associates and other investments and long-term financial assets		(659)	(482)	(728)
- Proceeds from disposals of associates and other investments and long-term financial assets		485	492	346
- Dividends paid by companies valued at equity		36	36	38
- Increase in equipment of leased assets		(40)	(656)	(279)
- Proceeds from disposals of leased assets		256	74	8
- Increase in finance lease receivables		(219)	(261)	(443)
- Decrease in finance lease receivables		85	110	84
Change of securities		(559)	10	336
Change in cash from changes in consolidation		12	9	(152)
Cash (used for) investing activities		**(3,362)**	**(3,749)**	**(3,475)**
Change in long-term and short-term financial liabilities	27	(344)	474	1,132
Cash distribution to EADS N.V. shareholders		(396)	(320)	(240)
Payments related to liability for puttable instruments		(93)	(64)	(38)
Capital increase		187	43	21
Purchase of treasury shares		(288)	(81)	(31)
Others		0	0	8
Cash (used for) provided by financing activities		**(934)**	**52**	**852**
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents		17	(2)	(83)
Net increase in cash and cash equivalents		**828**	**1,314**	**2,003**
Cash and cash equivalents at beginning of period		**8,718**	**7,404**	**5,401**
Cash and cash equivalents at end of period		**9,546**	**8,718**	**7,404**

The following represents supplemental information with respect to cash flows:

(in €m)	2005	2004	2003
Interest paid	(242)	(367)	(311)
Income taxes paid, net	(265)	(302)	(383)
Interest received	313	329	338
Dividends received	55	57	55

(1) *For the effect of the retrospective application of IFRS 2 "Share-based Payment" please refer to "Changes in accounting policy" in Note 2.*
(2) *For the retrospective application of IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) regarding the liability for puttable instruments please refer to "Changes in accounting policy" in Note 2.*
(3) *Advance payments received related to inventories are reclassified to current and non-current other liabilities. Previous year figures are adjusted accordingly (see Note 15 "Inventories" and Note 24 "Other liabilities").*

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

For details, see Note 27, "Consolidated Statement of Cash Flows (IFRS)".

Consolidated Statements of Changes in Equity (IFRS)

		Equity attributable to equity holders of the parent						Minority interests	Total equity
(in €m)	Note	Capital stock	Share premium	Other reserves	Accumulated other comprehensive income	Treasury shares	Total		
Balance at 31st December 2002		**811**	**9,538**	**120**	**2,452**	**(156)**	**12,765**	**1,361**	**14,126**
Retrospective adjustments [1]	20			(2,594)	723		(1,871)	(1,212)	(3,083)
Balance at 31st December 2002, adjusted		**811**	**9,538**	**(2,474)**	**3,175**	**(156)**	**10,894**	**149**	**11,043**
Capital increase		2	19				21		21
Profit for the period (Net income) [1]				206			206	12	218
Cash distribution to EADS N.V. shareholders / dividends to minority shareholders			(240)				(240)	(9)	(249)
Disposal of minorities								(26)	(26)
Purchase of treasury shares						(31)	(31)		(31)
Other comprehensive income					4,299		4,299		4,299
thereof changes in fair values of available for sale financial instruments					154				
thereof changes in fair values of hedging instruments					3,123				
thereof currency translation adjustments					1,022				
Balance at 31st December 2003		**813**	**9,317**	**(2,268)**	**7,474**	**(187)**	**15,149**	**126**	**15,275**

(1) *For the retrospective application of IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) regarding the liability for puttable instruments and application of the revised IAS 16 "Property, plant and equipment" please refer to "Changes in accounting policy" in Note 2.*

(in €m)	Note	Equity attributable to equity holders of the parent: Capital stock	Share premium	Other reserves	Accumulated other comprehensive income	Treasury shares	Total	Minority interests	Total equity
Balance at 31st December 2003		**813**	**9,317**	**(2,268)**	**7,474**	**(187)**	**15,149**	**126**	**15,275**
Capital increase		2	41				43		43
Profit for the period (Net income) (1) (2)				1,203			1,203	18	1,221
Share-based Payment (IFRS 2) (2)	31			12			12		12
Cash distribution to EADS N.V. shareholders			(320)				(320)		(320)
Purchase of treasury shares						(81)	(81)		(81)
Cancellation of treasury shares		(5)	(86)			91	0		0
Other comprehensive income					204		204		204
thereof changes in fair values of available for sale financial instruments					*33*				
thereof changes in fair values of hedging instruments					*610*				
thereof currency translation adjustments					*(439)*				
Balance at 31st December 2004		**810**	**8,952**	**(1,053)**	**7,678**	**(177)**	**16,210**	**144**	**16,354**
Capital increase	20	9	178				187		187
Profit for the period (Net income)				1,676			1,676	34	1,710
Share-based Payment (IFRS 2)	31			33			33		33
Cash distribution to EADS N.V. shareholders			(396)				(396)		(396)
Purchase of treasury shares	20					(288)	(288)		(288)
Cancellation of treasury shares	20	(1)	(19)			20	0		0
Other comprehensive income					(3,696)		(3,696)	(2)	(3,698)
thereof changes in fair values of available for sale financial instruments					*45*				
thereof changes in fair values of hedging instruments	*30 c*				*(3,685)*				
thereof currency translation adjustments					*(56)*			*(2)*	
Balance at 31st December 2005		**818**	**8,715**	**656**	**3,982**	**(445)**	**13,726**	**176**	**13,902**

(1) *For the retrospective application of IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) regarding the liability for puttable instruments and application of the revised IAS 16 "Property, plant and equipment" please refer to "Changes in accounting policy" in Note 2.*
(2) *For the retrospective application of IFRS 2 "Share-based Payment" please refer to "Changes in accounting policy" in Note 2.*

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

Notes to the Consolidated Financial Statements (IFRS)

Basis of Presentation

1. The company

The accompanying Consolidated Financial Statements present the financial position and the result of 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 7th March 2006 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"), as endorsed by the European Union (EU). 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").

New Standards

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. Besides the revisions of thirteen IAS in conjunction with the Improvements Project (published in December 2003) the IASB released in 2004 five more standards, five interpretations as well as amendments / revisions. In 2005 the IASB released one new Standard, two interpretations as well as amendments / revisions as listed below. The Standards and Interpretations printed in italic have a later effective date and are not yet adopted. All other Standards and Interpretations listed below were adopted by EADS and are applied to the Group's Consolidated Financial Statements for the accounting period beginning on 1st January 2005. Except for IFRIC 4 "Determining whether an Arrangement contains a Lease" (released 2004) and the April 2005 Amendment ("Cash Flow Hedge Accounting of Forecast Intragroup Transactions") to IAS 39 "Financial Instruments: Recognition and Measurement", EADS has decided not to opt for early adoption of any of the new, revised or amended standards or interpretations before they become effective.

Improvements Project (2003):

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 (released 2004)

IFRS 3 Business Combinations (released 2004)

IFRS 4 Insurance Contracts (released 2004)

IFRS 5 Non-current Assets held for sale and Discontinued Operations (released 2004)

IFRS 6 *Exploration for and Evaluation of Mineral Resources (released 2004)*

IFRS 7 *Financial Instruments: Disclosures (released 2005)*

New Interpretations:

IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities (released 2004)

IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments (released 2004)

IFRIC 3 *Emission Rights (released 2004, withdrawn 2005)*

IFRIC 4 Determining whether an Arrangement contains a Lease (released 2004)

IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (released 2004)*

IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment (released 2005)*

IFRIC 7 *Applying the Restatement Approach under IAS 29 (released 2005)*

Amendments / Revisions:

IAS 1 Presentation of Financial Statements
Amendment (August 2005) Capital Disclosures

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 36 Impairment of Assets (March 2004)

IAS 38 Intangible Assets (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*
- Amendment (April 2005) Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- *Amendment (June 2005) The Fair Value Option*
- *Amendment (August 2005) Financial Guarantee Contracts*

SIC 12 Consolidation - Special Purpose Entities
Amendment (November 2004) Scope of SIC 12

Changes in accounting policy related to new or revised IFRS Standards and Interpretations

IFRS 2 Share-based Payment — The revised accounting policy for share-based payment transactions is described below. The main impact of IFRS 2 on the Group's Consolidated Financial Statements is the recognition of an expense and a corresponding entry within equity for senior executive and employees' stock options and employee stock ownership plans. In accordance with the transition rules EADS applied the Standard retrospectively to two equity settled plans, which were granted after 7th November 2002 and not vested as of 1st January 2005.

For the effects of the revised policy on EADS Consolidated Balance Sheet, Consolidated Income Statement as well as Earnings per Share see Note 31 "Share-based Payment" and Note 35 "Earnings per Share".

IAS 1 Presentation of Financial Statements — The effect of the application of the amended standard is a revised presentation of the Consolidated Balance Sheet. All assets and liabilities are now classified on the face of EADS Consolidated Balance Sheet as either current or non-current depending on their nature. An asset is qualified as current when it is expected to be realised in EADS' normal operating cycle or when it is held primarily for the purpose of being traded. A liability is qualified as current when it is expected to be settled in EADS' normal operating cycle. Financial liabilities are classified as current if they are due within twelve month after the balance sheet date. All other assets and liabilities are classified as non-current.

In addition, minority interests are presented within total equity. Prior period's Consolidated Balance Sheet has been adjusted consistently.

IAS 16 Property, Plant and Equipment — As of 1st January 2005 EADS applied the component approach as set out in the revised Standard. Under this approach foreseeable costs of major future servicing and major parts (components) to be replaced during the life-time of an item of property, plant and equipment are depreciated separately over their respective useful lives.

The revised guidance in IAS 16 "Property, plant and equipment" requires to include within the cost of an item of property, plant and equipment, the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located. A provision presenting the asset retirement obligation is recognised in the same amount at the same date in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

For the effect of the revised policy we refer to the Notes 13 "Property, plant and equipment", 17 "Other assets", 11 "Income taxes", 20 "Total equity" and 21 d) "Other provisions".

IAS 32 Financial Instruments: Disclosure and Presentation (revised 2004) — Since 1st January 2005, EADS applies revised IAS 32 "Financial Instruments: Disclosure and Presentation". Amongst others, revised IAS 32 provides modified guidance whether a share in an entity should be classified as equity or as financial liability. Accordingly, under certain circumstances, an entity shall record a financial liability rather than an equity instrument for the exercise price of a written put option on the entity's equity.

As part of the Airbus business combination in 2001, the option granted to BAE Systems to put its 20% stake in Airbus is such a written put option. As such EADS has the obligation to purchase these minority shares whenever the minority shareholder requests it, limited to a revolving yearly window period for an amount equal to the fair value of the shares at the time the option is exercised, to be paid in cash or an equivalent amount of EADS shares. Following revised IAS 32 and despite BAE Systems (legal) minority rights in Airbus, the related interest is now to be regarded as financial liability in the EADS Consolidated Financial Statements, to be stated at fair value. The liability for the put option has been measured by applying a choice of different valuation techniques, based on best estimates currently available, and is presented in a separate line of the EADS Consolidated Balance Sheet (Liability for puttable instruments).

Following IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the adoption of revised IAS 32 is treated as a change in accounting policy firstly effecting EADS' Consolidated Financial Statements as of 31st December 2005 with corresponding adjustments to the prior periods presented. The historical minority interests for BAE Systems' 20% stake in Airbus at the time of the business combination in 2001 have been replaced by the posting of a liability for puttable instruments, the difference between those two amounts being accounted for against consolidated total equity. Prior years' dividend payments to BAE Systems have been treated as partial repayments, thus consequently reducing the liability for puttable instruments. All changes to the fair value of the liability for puttable instruments have been treated as contingent consideration in a business combination in accordance with IFRS 3 "Business Combinations" and led to adjustments of goodwill.

The impacts of this revised accounting policy on EADS Consolidated Financial Statements are explained in Notes 12 "Intangible assets", 20 "Total equity", 23 "Liability for puttable instruments" and 35 "Earnings per Share".

IFRIC 4 Determining whether an Arrangement contains a Lease — Certain contracts that do not take the legal form of a lease convey the right to use an asset. This is often the case in connection with service contracts. In accordance with the transitional provisions of the Interpretation, EADS identified such contracts as of 1st January 2005 and accounted for the lease element in accordance with IAS 17 "Leases".

For the effects of the revised policy on EADS Consolidated Financial Statements see Notes 13 "Property, plant and equipment", 14 "Investments in associates, other investments and long term financial assets" and 22 "Financial liabilities".

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 "Business combinations".

Since 1st January 2004, business combinations are accounted for under the purchase accounting method as required by IFRS 3 "Business combinations"; 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 existence 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 capitalised 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 differences are included as a separate component of total 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 recognised 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 occurring after 31st December 2004 are treated as assets and liabilities of the acquired company and are recorded at the exchange rate at the date of the transaction. Regarding transactions prior to that date, goodwill, assets and liabilities acquired are treated as those of the acquirer.

***Revenue Recognition* —** Revenues from the sale of goods are recognised upon the transfer of risks and rewards of ownership to the buyer and when the amount of revenue can be measured reliably. Revenues from services rendered are recognised 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, revenues are recognised 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 recognised 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 contract 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.

***Leasing* —** The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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 13 “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 recognised in the Consolidated Balance Sheet after the inception of the lease. Instead, a finance lease 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 14 “Investments in associates, other investments and long-term financial assets”). Unearned finance income is recorded over time in “Interest 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 13 “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-transactions) and is recorded accordingly. For the relating liability from finance leases see Note 22 “Financial liabilities”. When EADS is the lessee under an operating lease contract, rental payments are recorded when they fall due (see Note 29 “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-transactions).

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 headlease 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 offsets (head) finance lease obligations with the matching amount of defeased deposits.

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 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. The rates in question shall reflect the return that investors would require for an investment in the asset under review.

Impairment losses recognised for goodwill are not reversed. Those for investments in equity instruments classified as available-for-sale financial assets 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.

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 capitalised. 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.

Capitalised 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 tax credits granted for research and development activities are deducted from corresponding expenses or capitalised amounts when earned.

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 recognised 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. Such costs include the estimated cost of replacing, servicing and restoring part of such property, plant and equipment. Depreciation expense is recognised 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 capitalised. 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.

When a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

Cost of an item of property, plant and equipment initially recognised comprise the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located at the end of the useful life of the item on a present value basis. A provision presenting the asset retirement obligation is recognised in the same amount at the same date in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Property, plant and equipment also includes capitalised 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 capitalised 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.

***Investments* —** The Group's investments comprise investments in associates, other investments and long-term financial assets as well as current and non current securities and cash equivalents.

Within EADS, all investments 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.

The majority 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 total 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 "Other income (expense) from investments" in the Consolidated Income Statement for the period.

Investments in Money Market Funds are designated at "fair value through profit or loss".

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 recognised 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 receivables** and **other investments and long-term financial assets**.

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.

Inventories — Inventories are measured at the lower of acquisition cost (generally the average cost) or manufacturing cost and net realisable 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 and normal consumption of material, labour and other production costs), including depreciation charges. Borrowing costs are not capitalised.

Trade Receivables — Trade receivables include claims arising from revenue recognition that are not yet settled by the debtor as well as receivables relating to construction contracts. Trade receivables are initially recognised 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.

Non-current assets held for sale — Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. Liabilities directly associated with non-current assets held for sale in a disposal group are presented separately on the face of the Consolidated Balance Sheet.

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 recognised and carried in the Consolidated Balance Sheet at fair value. While derivative financial instruments with positive fair values are recorded in current and non-current 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 AOCI, a separate component of total equity, net of applicable income taxes and recognised in the Consolidated Income Statement in conjunction with the result of the underlying hedged transaction, when realised. Any hedge ineffectiveness is immediately recorded in "Profit for the period". 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 recognised in "Profit for the period".

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 "Financial Instruments: Recognition and Measurement", changes in fair value of such derivative financial instruments are recognised immediately in "Profit for the period".

b) **Embedded derivatives:** Derivative components embedded in a non-derivative-host contract are separately recognised 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 the fair value of these instruments are recorded in "Other financial result".

See Note 30 "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 recognised 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's 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 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 apply defined benefit accounting in conjunction with a defined benefit multi-employer plan, the Group accounts for the plan as if it was a defined contribution plan.

***Emission Rights and Provisions for in-excess-emission* —** Under the EU Emission Allowance Trading Scheme (EATS) national authorities have issued on 1st January 2005 permits (emission rights), free of charge, that entitle participating companies to emit a certain amount of greenhouse gas over the compliance period.

The participating companies are permitted to trade those emission rights. To avoid a penalty a participant is required to deliver emission rights at the end of the compliance period equal to its emission incurred.

EADS recognizes a provision for emission in case it has caused emissions in excess of emission rights granted. The provision is measured at the fair value (market price) of emission rights necessary to compensate for that shortfall at each balance sheet date.

In absence of any specific authoritative guidance under IFRS, emission rights held by EADS are generally accounted for as intangible assets, whereby

i) Emission rights allocated for free by national authorities are accounted for as a non-monetary government grant at its nominal value of nil.

ii) Emission rights purchased from other participants are accounted for at cost or the lower recoverable amount; if they are dedicated to offset a provision for in excess emission, they are deemed to be a reimbursement right and are accounted for at fair value.

***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 recognised in “Other 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

***SOP* —** Stock options are accounted for in accordance with IFRS 2 “Share-based Payment” and qualify as equity settled share-based payments. Associated services received are measured at fair value and are calculated by multiplying the number of options expected to vest with the fair value of one option as of grant date. The fair value of the option is determined by applying the Black Scholes Option Pricing Model.

The fair value of the services is recognised as personnel expense and a corresponding increase in consolidated retained earnings over the vesting period of the respective plan.

Part of the grant is conditional upon the achievement of non-market performance objectives and will only vest provided that the performance conditions are met. If it becomes obvious during the vesting period that some of the performance objectives will not be met and, hence, the number of equity instruments expected to vest differs from that originally expected, the expense is adjusted accordingly.

***ESOP* —** EADS offers to its employees to buy under the employee stock ownership plan (ESOP) EADS shares at a certain discount. The difference between the exercise price and the corresponding share price is recognised as personnel expense in EADS Consolidated Financial Statements at grant 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 profit for the period 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.

Key assumptions and other sources of estimation uncertainties are disclosed in the respective Notes (see in particular Notes 12 "Intangible Assets", Note 21 "Provisions", Note 29 "Commitments and Contingencies" and Note 30 "Information about financial instruments").

3. Scope of consolidation

Perimeter of consolidation (31st December 2005) — The Consolidated Financial Statements include, in addition to EADS N.V.:

- 228 companies which are fully consolidated;
- 21 companies which are proportionately consolidated;
- 21 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

In 2005, the Group acquired Nokia's Professional Mobile Radio – PMR activities (EADS Secure Networks Oy) from Nokia. The initial accounting for this business combination is determined on a provisional basis.

On 4th October 2004, the Group acquired RIG Holdings, Inc., Delaware / USA together with its subsidiaries Racal Instruments U.S. and Racal Instruments Group Ltd. from RIG Holdings, LP, Delaware.

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

b) Disposals

On 30th November 2005, EADS sold its 50% participation in TDA – Armements S.A.S. to Thales. Furthermore, on 28th February 2005, EADS sold its Enterprise Telephony Business, which comprises its civil telecommunication activities, to Aastra Technologies Limited, Concord / Canada.

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

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

In 2005, no material subsequent changes in the value of assets and liabilities acquired and cost of acquisition occurred.

Notes to the Consolidated Statements of Income (IFRS)

5. Segment Reporting

The Group operates in five divisions (segments) which reflect the internal organizational and management structure according to the nature of the products and services provided. Following recent changes in the EADS structure, the Aeronautics Division was dissolved end of June 2005 and split into Eurocopter Division and Other Businesses. Segment figures have been restated in accordance with this new structure.

- **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.
- **Eurocopter** — Development, manufacturing, marketing and sale of civil and military helicopters and maintenance services.
- **Defence & Security Systems** — Development, manufacturing, marketing and sale of missiles systems; military combat and training aircraft; provision of defence electronics, defence-related telecommunications solutions; logistics, training, testing, engineering and other related services.
- **Space** — Development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers; 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.". "Other Businesses" comprises the development, manufacturing, marketing and sale of regional turboprop aircraft and light commercial aircraft, aircraft components as well as civil and military aircraft conversion and maintenance services.

a) Business Segment Information for the year ended 31st December 2005

(in €m)	Airbus	Military Transport Aircraft	Eurocopter	Defence& Security Systems	Space	Other Businesses	HQ / Conso.	Conso-lidated
Total revenues	22,179	763	3,211	5,636	2,698	1,155	33	35,675
Internal revenues	(238)	(234)	(134)	(509)	(10)	(329)	(15)	(1,469)
Revenues	**21,941**	**529**	**3,077**	**5,127**	**2,688**	**826**	**18**	**34,206**
Income from associates	0	0	0	4	0	0	206	210
EBIT pre goodwill impairment and exceptionals (see definition below)	2,307	48	212	201	58	(171)	197	2,852
Exceptionals								(140)
Total finance costs								(177)
Income taxes								(825)
Profit for the period								1,710
Attributable to:								
Equity holders of the parent (Net income)								1,676
Minority interest								34

Other Information

Identifiable segment assets (incl. goodwill) (1)	33,226	1,642	4,076	9,287	4,911	1,320	2,543	57,005
thereof goodwill	*6,987*	*12*	*111*	*2,469*	*559*	*0*	*29*	*10,167*
Investments in associates	0	0	0	31	0	10	1,867	1,908
Segment liabilities (2)	20,274	1,581	3,076	9,854	4,393	977	3,883	44,038
Capital expenditures (incl. leased assets)	1,864	93	79	205	467	64	86	2,858
Depreciation, amortisation	1,131	41	68	146	117	55	95	1,653
Research and development expenses	1,659	18	70	207	58	6	57	2,075

(1) *Segment assets exclude current and deferred tax assets as well as cash and cash equivalents and securities.*
(2) *Segment liabilities exclude current and deferred tax liabilities and interest bearing liabilities.*

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

(in €m)	Airbus	Military Transport Aircraft	Eurocopter [4]	Defence & Security Systems	Space	Other Businesses [4]	HQ / Conso.	Conso-lidated
Total revenues	20,224	1,304	2,786	5,385	2,592	1,123	31	33,445
Internal revenues	(621)	(227)	(121)	(424)	(10)	(268)	(13)	(1,684)
Revenues	**19,603**	**1,077**	**2,665**	**4,961**	**2,582**	**855**	**18**	**31,761**
Income from associates	7	0	0	3	0	0	78	88
EBIT pre-goodwill impairment and exceptionals (see definition below) [1]	1,919	26	201	226	9	2	49	2,432
Exceptionals								(217)
Total finance costs								(330)
Income taxes								(664)
Profit for the period								1,221
Attributable to:								
Equity holders of the parent (Net income)								1,203
Minority interest								18

Other information

Identifiable segment assets (incl. goodwill) [2]	35,044	1,051	3,649	9,076	3,841	1,324	2,143	56,128
thereof goodwill	*6,883*	*12*	*111*	*2,407*	*559*	*0*	*29*	*10,001*
Investments in associates	0	0	0	24	0	9	1,705	1,738
Segment liabilities [3]	17,019	881	2,701	9,253	3,471	750	3,575	37,650
Capital expenditures (incl. leased assets)	2,778	49	92	174	423	85	72	3,673
Depreciation, amortisation	1,088	34	52	139	110	54	144	1,621
Research and development expenses	1,734	26	61	185	61	7	52	2,126

(1) *The effect of the retrospective application of IFRS 2 "Share-based Payment" is included (see Note 7 "Functional costs").*
(2) *Segment assets exclude current and deferred tax assets as well as cash and cash equivalents and securities.*
(3) *Segment liabilities exclude current and deferred tax liabilities and interest bearing liabilities.*
(4) *Previous year's "Aeronautics" division split into "Eurocopter" and "Other businesses".*

As a rule, inter-segment transfers are carried out on an arm's length basis. Inter-segment sales predominantly take place between Eurocopter, Defence & Security Systems and Airbus; as the Eurocopter and Defence & Security Systems divisions act as suppliers for Airbus aircraft. Moreover, Airbus acts as a main supplier for the A400M program which is led by the Military Transport Aircraft division.

Capital expenditures represent the additions to property, plant and equipment and to intangible assets (excluding additions to goodwill of €168 million; for further details see Note 5 e) "Capital expenditures".

c) EBIT pre-goodwill impairment and exceptionals

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

(in €m)	2005	2004 (1)	2003
Profit before finance costs and income tax	**2,712**	**2,215**	**747**
Goodwill amortisation	0	0	567
Exceptional depreciation (fixed assets)	136	212	214
Exceptional depreciation (inventories)	0	5	15
Exceptional depreciation (others)	4	0	0
EBIT pre-goodwill impairment and exceptionals	**2,852**	**2,432**	**1,543**

(1) *The effect of the retrospective application of IFRS 2 "Share-based Payment" is included (see Note 7 "Functional costs").*

Due to the application of IFRS 2 "Share-based Payment", previous year figures had to be adjusted accordingly. For 2005, the recorded effect on EBIT pre-goodwill impairment and exceptionals as well as profit for the period resulted in an additional expense of €33 million (2004: €12 million).

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 U.S.-$ denominated entity - has been merged within Airbus SAS – a Euro denominated entity – with retrospective 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)	2005	2004	2003
France	3,511	3,326	3,521
Germany	3,235	4,322	3,651
United Kingdom	2,682	2,653	2,121
Spain	1,017	1,253	1,000
Other European Countries	3,126	2,974	3,687
North America	9,026	8,715	8,056
Asia / Pacific	7,734	4,938	4,033
Middle East	1,860	2,286	2,873
Latin America	645	505	677
Other Countries	1,370	789	514
Consolidated	**34,206**	**31,761**	**30,133**

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

e) Capital expenditures

(in €m)	2005
Germany	962
France	946
United Kingdom	707
Spain	150
Other Countries	53
Capital expenditures excluding leased assets	**2,818**
Leased assets	**40**
Capital expenditures	**2,858**

f) Property, plant and equipment by geographical area

(in €m)	2005
Germany	3,852
France	3,140
United Kingdom	2,682
Spain	901
Other Countries	857
Property, plant and equipment by geographical area	**11,432**

Property, plant and equipment split by geographical area excludes leased assets (€2,385 million).

6. Revenues

Revenues in 2005 reached €34,206 million compared to €31,761 million in 2004 and €30,133 million in 2003. Revenues in 2005 increased in comparison to 2004 in all divisions except in Military Transport Aircraft division. Despite less favourable hedges compared to 2004, revenues increased mainly at Airbus, Eurocopter and Defence.

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)	2005	2004	2003
Total revenues	34,206	31,761	30,133
Thereof revenues from the delivery of goods & services	28,649	26,208	25,110
Thereof revenues from construction contracts (including contracted research and development)	4,706	4,816	4,295

The revenues from construction contracts decreased in 2005 mainly in the Military Transport Aircraft division resulting from the A400M nearly offset by the increase in the Eurocopter and Space divisions.

7. Functional costs

Included in cost of sales and other functional costs are **Cost of materials** (including changes in inventories) of €20,800 million (2004: €19,734 million; 2003: €18,882 million).

Cost of sales include the amortisation expenses of fair value adjustments of fixed assets and inventories in the amount of €136 million (2004: €217 million; 2003: €229 million); these are relating to the EADS merger, the Airbus Combination and the formation of MBDA.
Additionally included in 2004 is the effect of the retrospective application of IFRS 2 "Share-based Payments" amounting to an expense of €12 million.

Personnel expenses are:

(in €m)	2005	2004	2003
Wages, salaries and social contributions	8,108	7,617	7,238
Net periodic pension cost (see Note 21 b)	377	327	359
Total	**8,485**	**7,944**	**7,597**

8. Other income

(in €m)	2005	2004	2003
Other income	222	314	196
Thereof rental income	48	42	39
Thereof release of allowances	9	34	17
Thereof income from sales of fixed assets	39	20	7

The other income in 2004 includes the release of the provision for the VT 1 claim in the amount of €106 million.

9. Share of profit from associates and other income (expense) from investments

(in €m)	2005	2004	2003
Share of profit from associates	210	88	224
Other income (expense) from investments	15	(4)	(38)
Total	**225**	**84**	**186**

The **share of profit from associates** in 2005 is mainly derived from the result of the equity investment in Dassault Aviation of €205 million (2004: €78 million; 2003: €225 million). The Dassault Aviation Group reported in 2005 a Net income of €305 million of which EADS recognised an amount of €141 million according to its share of 46.3%. The current year's equity investment income from Dassault Aviation also includes a positive catch up of the prior year financial performance in accordance with IFRS, which amounts to €64 million (in 2004: €(33) million).

The **other income (expense) from investments** mainly comprises dividend contributions from investments. In 2003 an impairment loss of €30 million for CAC Systèmes and Hispasat was incurred.

10. Total finance costs

(in €m)	2005	2004	2003
Interest result	(155)	(275)	(203)
Other financial result	(22)	(55)	148
Total	**(177)**	**(330)**	**(55)**

Interest result in 2005 comprises interest income of €476 million (2004: €352 million; 2003: €371 million) and interest expense of €(631) million (2004: €(627) million; 2003: €(574) million). 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 €236 million (2004: €245 million) and on financial liabilities.

Other financial result in 2005 includes among others a negative impact from the fair value measurement of embedded derivatives not used in hedging relationships in the amount of €(108) million (2004: €(10) million; 2003: €70 million), as well as losses on interest rate swaps of €(13) million. Included is the positive exchange effects on monetary items in foreign currency of €147 million.

11. Income taxes

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

(in €m)	2005	2004	2003
Current tax expense	(439)	(127)	(612)
Deferred tax (expense) / benefit	(386)	(537)	138
Total	**(825)**	**(664)**	**(474)**

The Group's parent company, EADS N.V., legally seated in Amsterdam, The Netherlands, applies Dutch tax law using an income tax rate of 31.5% for 31st December 2005 (for 2004 and 2003: 34.5%). In December 2005, a new tax law was enacted reducing the income tax rates in 2005 to 31.5%, in 2006 to 29.6% and from 2007 onwards to 29.1%. 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 and 2003 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, the applied tax rate for 2005 in France is 34.93%. Deferred tax assets and liabilities for the Group's French subsidiaries were calculated at 31st December 2005 using the enacted tax rate of 34.43% for temporary differences.

For the Group's German subsidiaries, income taxes are calculated using a federal corporate tax rate of 25.0% for 31st December 2005, 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 2005. In aggregate, the tax rate applied to German income taxes amounts to 38.5% in 2005 (38.5% at 31st December 2004 and 40.0% at 31st December 2003).

The following table shows a reconciliation from the theoretical income tax expense – using the Dutch corporate tax rate of 31.5% as at 31st December 2005, 34.5% at 31st December 2004 and at 31st December 2003 – 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)	2005	2005 in % of "Profit before income taxes"	2004 (1)	2003
Profit before income taxes	2,535		1,885	692
* Corporate income tax rate	31.5%	31.5%	34.5%	34.5%
Expected (expense) for income taxes	(799)		(650)	(239)
Effects from tax rate differentials and changes	(55)	2.1%	(36)	(26)
Goodwill amortisation	0	-	0	(191)
Change in valuation allowances	(14)	0.6%	(11)	(119)
Tax credit for R&D expenses	35	(1.4)%	80	69
Share of profit from associates	70	(2.8)%	22	76
Tax effect on investments	(8)	0.3%	4	(35)
Other	(54)	2.2%	(73)	(9)
Reported tax expense	(825)	32.5%	(664)	(474)

(1) *The effect of the retrospective application of IFRS 2 "Share-based Payment" is included (see Note 7 "Functional costs").*

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:

	Deferred tax assets		Deferred tax liabilities		Net, 31st December	
(in €m)	2005	2004	2005	2004	2005	2004
Intangible assets	14	8	(157)	(97)	(143)	(89)
Property, plant and equipment	114	46	(1,270)	(1,087)	(1,156)	(1,041)
Investments and long-term financial assets	56	33	(234)	(149)	(178)	(116)
Inventories	470	357	(445)	(191)	25	166
Receivables and other assets	54	58	(1,733)	(3,561)	(1,679)	(3,503)
Prepaid expenses	2	1	(30)	(26)	(28)	(25)
Provision for retirement plans	678	700	0	0	678	700
Other provisions	974	607	(70)	(41)	904	566
Liabilities	977	821	(288)	(305)	689	516
Deferred income	504	579	(24)	(29)	480	550
Net operating loss and tax credit carry forwards	1,122	1,260	-	-	1,122	1,260
Deferred tax assets / (liabilities) before netting	**4,965**	**4,470**	**(4,251)**	**(5,486)**	**714**	**(1,016)**
Valuation allowances on deferred tax assets	(533)	(570)	-	-	(533)	(570)
Set-off	(1,875)	(1,352)	1,875	1,352	-	-
Net Deferred tax assets / (liabilities) (1)	**2,557**	**2,548**	**(2,376)**	**(4,134)**	**181**	**(1,586)**
Thereof less than one year	864	858	(432)	(1,379)	432	(521)
Thereof more than one year	1,693	1,690	(1,944)	(2,755)	(251)	(1,065)

(1) *Prior year adjusted due to the application of revised IAS 16 "Property, plant and equipment" (component approach) amounting to €5 million; please refer to "Changes in accounting policy" in Note 2 "Summary of significant accounting policies".*

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 realisable may change, and hence the write down of deferred tax assets may increase or decrease. Companies in loss making situations in two or more subsequent years recorded a total deferred tax balance of €83 million. Assessments show that these deferred tax assets will be recovered in future through either (i) own projected profits, or profits of other companies (ii) integrated in the same fiscal group ("regime integration fiscal" in France, "steuerliche Organschaft" in Germany) or (iii) via the "loss surrender-agreement" in Great Britain.

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

(in €m)	France	Germany	Spain	UK	Other countries	31st Dec 2005	31st Dec 2004
Net Operating Losses (NOL)	398	660	4	1,622	96	2,780	3,217
Trade tax loss carry forwards	-	612	-	-	-	612	871
Tax credit carry forwards	4	-	213	-	-	217	186
Tax effect	**141**	**248**	**214**	**487**	**32**	**1,122**	**1,260**
Valuation allowances	(64)	(147)	(1)	(81)	(14)	(307)	(349)
Deferred tax assets on NOL's and tax credit carry forwards	**77**	**101**	**213**	**406**	**18**	**815**	**911**

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)	2005	2004
Net deferred tax asset / (liability) beginning of the year (1)	**(1,586)**	**(935)**
Deferred tax income (expense) in income statement	(386)	(537)
Deferred tax recognised directly in AOCI (IAS 39)	2,032	(300)
Others	121	186
Net deferred tax asset / (liability) at year end	**181**	**(1,586)**

(1) *Prior year adjusted due to the application of revised IAS 16 "Property, plant and equipment" (component approach) amounting to €5 million; please refer to "Changes in accounting policy" in Note 2 "Summary of significant accounting policies".*

The deferred tax recognised directly in AOCI is as follows:

(in €m)	2005	2004
Available-for-sale investments	(3)	4
Cash flow hedges	(1,070)	(3,109)
Total	**(1,073)**	**(3,105)**

Notes to the Consolidated Balance Sheets (IFRS)

12. Intangible assets

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

Cost

(in €m)	Balance at 31st Dec 2004 (as reported)	Change in accounting policies (1)	Balance at 1st January 2005 (restated)	Exchange differences	Additions	Changes in consolida-tion scope	Reclassi-fication	Disposals	Balance at 31st Dec 2005
Goodwill	10,607	541	11,148	1	168	(9)	0	(2)	11,306
Capitalised development costs	172	0	172	1	292	0	2	(1)	466
Other intangible assets	837	0	837	4	212	(3)	35	(62)	1,023
Total	**11,616**	**541**	**12,157**	**6**	**672**	**(12)**	**37**	**(65)**	**12,795**

Amortisation / Impairment

(in €m)	Balance at 31st Dec 2004 (as reported)	Change in accounting policies (1)	Balance at 1st January 2005 (restated)	Exchange differences	Amorti-sation charge	Changes in consolida-tion scope	Reclassi-fication	Disposals	Balance at 31st Dec 2005
Goodwill	(1,147)	0	(1,147)	(3)	0	9	0	2	(1,139)
Capitalised development costs	(3)	0	(3)	0	(2)	0	0	1	(4)
Other intangible assets	(458)	0	(458)	(2)	(185)	2	(14)	57	(600)
Total	**(1,608)**	**0**	**(1,608)**	**(5)**	**(187)**	**11**	**(14)**	**60**	**(1,743)**

Net book value

(in €m)	Balance at 31st Dec 2004 (as reported)	Change in accounting policies (1)	Balance at 1st January 2005 (restated)	Exchange differences	Additions	Changes in consolida-tion scope	Reclassi-fication	Disposals	Balance at 31st Dec 2005
Goodwill	9,460	541	10,001	(2)	168	0	0	0	10,167
Capitalised development costs	169	0	169	1	290	0	2	0	462
Other intangible assets	379	0	379	2	27	(1)	21	(5)	423
Total	**10,008**	**541**	**10,549**	**1**	**485**	**(1)**	**23**	**(5)**	**11,052**

(1) *The change in accounting policy relates to the "Liability for puttable instruments", please refer to "Changes in accounting policy" in Note 2 "Summary of significant accounting policies".*

Additions to goodwill in 2005 mainly concern the contingent consideration with regard to the Airbus business combination in the amount of €93 million resulting from the application of IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) regarding the "Liability for puttable instruments". Furthermore the acquisition of Nokia's Professional Mobile Radio – PMR activities (EADS Secure Networks Oy) contributes €44 million.

Goodwill impairment tests

As in 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 a five-years period (in 2004: normally three-years period). These current forecasts are based on past experience as well as on future expected market developments.

As of 31st December 2005 and 2004, goodwill was allocated to Cash Generating Units, which is summarized in the following schedule on segment level:

(in €m)	Airbus	Military Transport Aircraft	Eurocopter	Defence & Security Systems	Space	Other Businesses	HQ / Conso.	Conso-lidated
Goodwill as of 31st December 2005	6,987	12	111	2,469	559	0	29	10,167
Goodwill as of 31st December 2004 (1)	6,883	12	111	2,407	559	0	29	10,001

(1) *Restatement according to IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) regarding the liability for puttable instruments, please refer to "Changes in accounting policy" in Note 2 "Summary of significant accounting policies".*

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 USA.

The assumption for the growth rate used to calculate the terminal value in general amounts to unchanged 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 of 11.5% (2004 in the range of: 12.5% to 14%).

Airbus operates in a cyclical market and 2005 was a record year for the industry. To face growing demand and based on an order backlog of 2,177 commercial aircraft, Airbus has planned for a production ramp up program to prepare for a production rate of up to 32 single aisle and up to 8 long range aircraft per month. Airbus future profits should be mainly affected by the expected growth in a competitive environment, the exchange rate assumptions, the hedge book in place and the cost saving program Route 06 as well as the entry into service of the A380 program.

For the Defence & Security Systems division an increase in revenues is assumed in the operative planning, mainly fuelled by the order book, as for example Eurofighter deliveries backed by tranche two contract. Operating margin of the division is expected to increase over the operative planning period thanks to the expected volume growth and benefits from launched restructuring measures in the past.

The order book of the Space division as of 31st December 2005 (including satellites, launchers, ballistic missiles and military telecom services) supports the strong revenue 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 to generate a ramped up level of revenues from the UK Ministry of Defence (MoD). The continuation of Space restructuring program SARA successfully delivered EBIT turnaround in 2004 and confirmed positive results in 2005 heading towards further increase in profitability.

EADS follows an active policy of foreign exchange risk hedging. As of 31st December 2005 the total hedge portfolio with maturities up to 2011 amounts to 47 billion U.S.$ and covers a major portion of the net exposure expected over the period of the operative planning (2006 to 2010). The average US$/€ hedge rate of the total hedge portfolio until 2011 amounts to 1.12 US$/€. 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 Eurocopter, 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 2005 and 2004.

Development Costs

EADS has capitalised development costs in the amount of €462 million as of 31st December 2005 (€169 million as of 31st December 2004) as internally generated intangible asset mainly for the Airbus A380 program.

13. 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 31st Dec 2004 (as reported)	Change in accounting policies (1) / Presentation (2)	Balance at 1st January 2005 (restated)	Exchange differences	Additions	Change in consolida-tion scope	Reclassi-fication	Disposals	Balance at 31st Dec 2005
Land, leasehold improvements and buildings including buildings on land owned by others	5,496	(172)	5,324	21	185	(5)	252	(38)	5,739
Technical equipment and machinery	6,682	44	6,726	199	632	(4)	666	(41)	8,178
Other equipment, factory and office equipment	6,321	9	6,330	390	214	(8)	(205)	(483)	6,238
Advance payments relating to plant and equipment as well as construction in progress	3,236	0	3,236	24	1,323	0	(1,103)	(6)	3,474
Total	**21,735**	**(119)**	**21,616**	**634**	**2,354**	**(17)**	**(390)**	**(568)**	**23,629**

Depreciation

(in €m)	Balance at 31st Dec 2004 (as reported)	Change in accounting policies (1) / Presentation (2)	Balance at 1st January 2005 (restated)	Exchange differences	Depreciation charge	Change in consolida-tion scope	Reclassi-fication	Disposals	Balance at 31st Dec 2005
Land, leasehold improvements and buildings including buildings on land owned by others	(1,973)	87	(1,886)	0	(243)	5	18	10	(2,096)
Technical equipment and machinery	(3,934)	0	(3,934)	(82)	(583)	4	3	24	(4,568)
Other equipment, factory and office equipment	(2,879)	(76)	(2,955)	(169)	(411)	17	143	271	(3,104)
Advance payments relating to plant and equipment as well as construction in progress	(44)	0	(44)	0	0	0	0	0	(44)
Total	**(8,830)**	**11**	**(8,819)**	**(251)**	**(1,237)**	**26**	**164**	**305**	**(9,812)**

Net book value

(in €m)	Balance at 31st Dec 2004 (as reported)	Change in accounting policies (1) / Presentation (2)	Balance at 1st January 2005 (restated)	Exchange differences	Additions	Change in consolida-tion scope	Reclassi-fication	Disposals	Balance at 31st Dec 2005
Land, leasehold improvements and buildings including buildings on land owned by others	3,523	(85)	3,438	21	(58)	0	270	(28)	3,643
Technical equipment and machinery	2,748	44	2,792	117	49	0	669	(17)	3,610
Other equipment, factory and office equipment	3,442	(67)	3,375	221	(197)	9	(62)	(212)	3,134
Advance payments relating to plant and equipment as well as construction in progress	3,192	0	3,192	24	1,323	0	(1,103)	(6)	3,430
Total	**12,905**	**(108)**	**12,797**	**383**	**1,117**	**9**	**(226)**	**(263)**	**13,817**

(1) *Through the application of the revised IAS 16 "Property, Plant and Equipment" (component approach and asset retirement obligation) the opening balance as of 31st December 2004 was adjusted retrospectively by an amount of €(46) million. Due to the adoption of IFRIC 4 "Determining whether an Arrangement contains a Lease" (released 2004), Property, plant and equipment includes a restatement at 31st December 2004, in the net amount of €97 million.*

(2) *Investment property is presented as a separate line item on the face of the Consolidated Balance Sheet (see Note 33 "Investment Property").*

In the depreciation of **Property, plant and equipment** impairment charges of €8 million for Sogerma are included.

The **Property, plant and equipment** include at 31st December 2005 and 2004, buildings, technical equipment and other equipment accounted for in fixed assets under finance lease agreements for net amounts of €170 million and €200 million, net of accumulated depreciation of €367 million and €336 million. The related depreciation expense for 2005 was €31 million (2004: €19 million; 2003: €22 million). For investment property please refer to Note 33 "Investment property".

Other equipment, factory and office equipment includes the net book value of "aircraft under operating lease" for €2,381 million and €2,743 million as of 31st December 2005 and 2004, respectively; related accumulated depreciation is €1,653 million and €1,604 million. Depreciation expense for 2005 amounts to €231 million (2004: €327 million; 2003: €439 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 29 "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 2005 are as follows:

(in €m)	
not later than 2006	173
later than 2006 and not later than 2010	433
later than 2010	246
Total	**852**

(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 recognised 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 26 "Deferred income").

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

	31st December	
(in €m)	2005	2004
(i) Net book value of aircraft under operating lease before impairment charge	1,493	1,981
Accumulated impairment	(319)	(532)
Net book value of aircraft under operating lease	1,174	1,449
(ii) Aircraft under operating lease with the present value of the guarantee being more than 10%	1,207	1,294
Total Net Book value of aircraft under operating leases	**2,381**	**2,743**

14. 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:

	31st December	
(in €m)	2005	2004
Investments in associates	**1,908**	**1,738**
Non-current other investments and long-term financial assets		
Other investments	541	459
Long-term financial assets	1,397	1,651
Total	**1,938**	**2,110**
Current portion of long-term financial assets	**237**	**242**

Investments in associates are accounted for using the equity method. As of 31st December 2005 and 2004, investments in associates mainly contain EADS' interest in Dassault Aviation (46.30% at 31st December 2005 and 46.22% at 31st December 2004) of €1,867 million and €1,705 million. The Dassault Aviation Group reported in 2005 a Net income of €305 million of which EADS recognised an amount of €141 million according to its share of interest. The current year's equity investment income from Dassault Aviation also includes a positive catch up of the prior year financial performance in accordance with IFRS, which amounts to €64 million (in 2004: €(33) million) and in addition €(18) million (in 2004: €38 million) were recognised in AOCI. Within the equity of EADS reflecting the share of Dassault's equity, a reclassification as of 31st December 2002 / 1st January 2003 has been recorded from retained earnings €(97) million into AOCI €97 million.

The following table illustrates summarized financial information of the EADS investment of 46.3% in Dassault Aviation as of 31st December 2005:

(in €m)	31st December 2005
Share of the associate's balance sheet:	
Non-current assets	1,231
Current assets	2,395
Non-current liabilities	165
Current liabilities	1,978
Total equity	1,483
Share of the associate's revenues and profit:	
Revenues	1,587
Net Income	141
Carrying amount of the investment	**1,867**

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 2005, investments in Embraer of €106 million (2004: €72 million) and in Patria of €51 million (2004: €50 million) as well as a participation of 10% in Irkut (€54 million), acquired in 2005.

Long-term financial assets of €1,397 million (in 2004: €1,651 million) and the **current portion of long-term financial assets** of €237 million (in 2004: €242 million) 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 29 "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:

	31st December	
(in €m)	**2005**	**2004**
Outstanding gross amount of loans to customers	717	946
Accumulated impairment	(274)	(311)
Total net book value of loans	**443**	**635**

Finance lease receivables from aircraft financing are as follows:

	31st December	
(in €m)	**2005**	**2004**
Minimum lease payments receivables	1,245	1,299
Unearned finance income	(321)	(179)
Accumulated impairment	(122)	(155)
Total net book value of finance lease receivables	**802**	**965**

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

(in €m)	
Not later than 2006	150
Later than 2006 and not later than 2010	493
Later than 2010	602
Total	**1,245**

Additionally included are €389 million and €293 million of other loans as of 31st December 2005 and 2004, e.g. loans to employees.

Defeased bank deposits of €1,102 million and €1,089 million as of 31st December 2005 and 2004, respectively have been offset against financial liabilities.

15. Inventories

Inventories at 31st December 2005 and 2004 consist of the following:

	31st December	
(in €m)	**2005**	**2004**
Raw materials and manufacturing supplies	1,159	987
Work in progress	10,655	8,505
Finished goods and parts accounted for at lower of cost and net realisable value	1,161	1,039
Advance payments to suppliers	2,450	1,803
Total	**15,425**	**12,334**

The increase in work in progress of €2,150 million was mainly driven by Airbus programs, Eurocopter, Military Transport Aircraft and Space. Finished goods and parts increased by €122 million, mainly relating to the ramp up of Eurocopter NH 90 and Tiger program. The increase of advance payments provided to suppliers mainly reflects activities in the A400M program, Eurofighter program, Space Transportation and Airbus.

Those advance payments received, which so far were deducted from inventories are now reclassified to current and non-current other liabilities. Previous year figure has been adjusted accordingly with a total amount of €9,259 million (thereof non-current other liabilities in the amount of €632 million and current other liabilities in the amount of €8,627 million).

The at cost value of finished goods and parts for resale amounts to €1,505 million in 2005 (2004: €1,354 million).

16. Trade receivables

Trade receivables at 31st December 2005 and 2004 consist of the following:

	31st December	
(in €m)	**2005**	**2004**
Receivables from sales of goods and services	5,209	4,784
Allowance for doubtful accounts	(407)	(378)
Total	**4,802**	**4,406**

Trade receivables are classified as current assets. As of 31st December 2005 and 2004, respectively, €237 million and €77 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 2005 an amount of €1,489 million (in 2004: €1,313 million) for construction contracts is included in the trade receivables net of advance payments received.

17. Other assets

Other assets at 31st December 2005 and 2004 consist of the following:

	31st December	
(in €m)	**2005**	**2004**
Non current other assets		
Positive fair values of derivative financial instruments	2,762	6,243
Prepaid expenses	526	560
Capitalised settlement payments to German Government	231	258
Others [(1)]	91	35
Total	**3,610**	**7,096**
Current other assets		
Positive fair values of derivative financial instruments	1,191	2,705
Value Added Tax claims	585	462
Prepaid expenses	332	391
Receivables from related companies	267	333
Receivables from affiliated companies	165	121
Loans	32	19
Others [(1)]	629	666
Total	**3,201**	**4,697**

(1) *Triggered by the application of the revised IAS 16 "Property, Plant and Equipment" (component approach) for major inspections where the lessee bears the relating maintenance costs the balance of other assets was adjusted retrospectively by an amount of €40 million (thereof current other assets €17 million and non-current other assets €23 million).*

The capitalised 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.

18. Securities

The Group's security portfolio amounts to €1,040 million and €466 million as of 31st December 2005 and 2004, respectively. The security portfolio contains a **non-current portion** of available-for-sale-securities of €1,011 million (in 2004: €466 million) and a **current portion** of €29 million (in 2004: €0 million).

Included in the securities portfolio are corporate bonds bearing both fixed rate coupons (€218 million nominal value) and floating rate coupons (€331 million nominal value) as well as credit instruments bearing floating rate coupons (€291 million nominal value).

19. Non-current assets classified as held for sale

According to IFRS 5 "Non-current Assets held for sale and Discontinued Operations", applied prospectively as of 1st January 2005, **non-current assets classified as held for sale** in the amount of €881 million reflect assets and disposal groups which concern mainly sales financing activities in Airbus. The disposal group includes **liabilities directly associated with non-current assets classified as held for sale** amounting to €62 million.

20. Total equity

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

Number of shares	2005	2004
Issued as at 1st January	**809,579,069**	**812,885,182**
Issued for ESOP	1,938,309	2,017,822
Issued for exercised options	7,562,110	362,747
Cancelled	(1,336,358)	(5,686,682)
Issued as at 31st December	**817,743,130**	**809,579,069**
Treasury shares as at 31st December	(20,602,704)	(10,028,775)
Outstanding as at 31st December	**797,140,426**	**799,550,294**

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 2005 Employee Stock Ownership Plan (see Note 31 "Share-based payment"), EADS issued 1,938,309 shares (in 2004: 2,017,822), representing a nominal value of €1,938,309 (in 2004: €2,017,822).

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.

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.

The Shareholders' General Meeting of EADS held on 11th May 2005 renewed the authorization given to the Board of Directors to repurchase shares of the Company, by any means, including derivative products, on any stock exchange or otherwise, 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 3rd June 2005, to set up and implement plans for the repurchase of up to 1,012,500 shares related to ESOP 2005. On 12th December 2005 the Group's Board of Directors decided to set up and implement plans for the repurchase of up to 3,990,880 shares related to the 2005 Stock Option Plan (7th tranche).

Furthermore, the Shareholders' General Meeting authorized both the Board of Directors and the Chief Executive Officers, with powers of substitution, to cancel up to a maximum of 1,336,358 shares. On 25th July 2005, the Chief Executive Officers decided to cancel 1,336,358 treasury shares.

In total EADS purchased in 2005 11,910,287 treasury shares (in 2004: 3,787,523 treasury shares) and cancelled 1,336,358 shares (in 2004: 5,686,682 shares), resulting in an amount of 20,602,704 treasury shares at 31st December 2005 (in 2004: 10,028,775 treasury shares).

The Shareholders' General Meeting also decided to pay a cash distribution related to the fiscal year 2004 for a gross amount of €0.50 per share, which was paid on 8th June 2005.

Capital stock comprises the nominal amount of shares outstanding. The addition to capital stock represents the contribution of €1,938,309 (in 2004: €2,017,822) by employees under the 2005 Employee Stock Ownership Plan and for exercised options of €7,562,110 (in 2004: €362,747) in compliance with the implemented stock option plans.

Share premium mainly results from contributions in kind in the course of the creation of EADS, cash contributions from the Initial Public Offering, capital increases and reductions due to the issuance and cancellation of shares as well as cash distributions to EADS N.V. shareholders. Other reserves include among others retained earnings. Accumulated other comprehensive income consists of all amounts recognised 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.

Total equity as of 31st December 2002 was adjusted due to the application of IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) (see Note 2 "Summary of significant accounting policies") in the amount of €(3,053) million, IAS 16 "Property, Plant and Equipment" (see Note 2 "Summary of significant accounting policies") in the amount of €(30) million; €97 million within the equity of EADS were reclassified in order to reflect the share of Dassault's equity according to IFRS (see Note 14 "Investments in associates, other investments and long-term financial assets").

21. Provisions

Provisions are comprised of the following:

	31st December	
(in €m)	**2005**	**2004**
Provision for retirement plans (see Note 21 b)	4,006	3,876
Provision for deferred compensation (see Note 21 a)	114	71
Retirement plans and similar obligations	**4,120**	**3,947**
Financial instruments (see Note 21 c)	921	181
Other provisions (see Note 21 d)	4,565	4,296
Total	**9,606**	**8,424**
Thereof non-current portion	*6,879*	*6,074*
Thereof current portion	*2,727*	*2,350*

As of 31st December 2005 and 2004, respectively, €3,900 million and €3,749 million of retirement plans and similar obligations, €472 million and €137 million of financial instruments as well as €2,507 million and €2,188 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.

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:

	31st December		
Assumptions in%	**2005**	**2004**	**2003**
Discount rate	4.0	4.75 – 5.0	5.0 – 5.25
Rate of compensation increase	3.0	3.0	3.0
Inflation rate	1.75 – 2.0	1.5 – 2.0	1.25 – 2.0
Expected return on plan assets	6.5	6.5	6.5

Actuarial gains and losses of the current year are not recognised in profit / loss but added to the balance of unrecognised net actuarial gain or loss. If the accumulated amount of unrecognised 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:

Change in defined benefit obligations

(in €m)	2005	2004	2003
Defined benefit obligations at beginning of year	5,198	4,735	4,287
Service cost	153	125	122
Interest cost	252	243	241
Plan amendments	8	0	14
Plan curtailments and settlements	0	(4)	0
Actuarial losses	517	281	9
Acquisitions and other	7	3	237
Benefits paid	(208)	(185)	(175)
Defined benefit obligations at end of year	**5,927**	**5,198**	**4,735**

Change in plan assets

(in €m)	2005	2004	2003
Fair value of plan assets at beginning of year	658	619	532
Actual return on plan assets	82	52	27
Contributions	111	45	16
Acquisitions and other	8	0	92
Benefits paid	(60)	(58)	(48)
Fair value of plan assets at end of year	**799**	**658**	**619**

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

	31st December		
(in €m)	**2005**	**2004**	**2003**
Funded status (1)	5,128	4,540	4,116
Unrecognised actuarial net (losses)	(1,118)	(659)	(384)
Unrecognised past service cost	(4)	(5)	(14)
Net amount recognised as provision	**4,006**	**3,876**	**3,718**

(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 unrecognised actuarial losses results mainly from the decrease in the discount rate for pension obligations in Germany from 4.75% to 4% and in France from 5% to 4%, partially offset by the increase in the assumed inflation rate for Germany from 1.5% to 1.75%.

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 €4,006 million (2004: €3,876 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 recognised 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 "Profit before finance costs and income taxes", are as follows:

(in €m)	2005	2004	2003
Service cost	153	125	122
Interest cost	252	243	241
Expected return on plan assets	(42)	(41)	(33)
Net actuarial loss	14	0	29
Net periodic pension cost	**377**	**327**	**359**

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

Change in provision for pension obligations

(in €m)	2005	2004
Provision for pension obligations at beginning of year	3,876	3,718
Net periodic pension cost	377	327
Contributions	(111)	(45)
Consumption (benefits paid)	(148)	(127)
Acquisitions and other	12	3
Provision for pension obligations at end of year	**4,006**	**3,876**

c) Financial instruments

The provision for financial instruments amounts to €921 million as of 31st December 2005 (€181 million as of 31st December 2004) and includes in 2005 mainly the negative fair market value of foreign currency forwards (see Note 30 c) "Fair value of financial instruments").

d) Other provisions

Movements in provisions during the year were as follows:

(in €m)	Balance at 1st January 2005	Opening balance sheet adjust-ments [(1)]	Balance at 1st January 2005 (adjusted)	Exchange differ-ences	Additions	Reclas-sification / Change in consolidated group	Used	Released	Balance at 31st December 2005
Aircraft financing risks	939	0	939	182	111	0	(39)	(24)	1,169
Outstanding costs	861	0	861	1	394	(15)	(329)	(86)	826
Contract losses	365	0	365	1	190	(14)	(110)	(35)	397
Tax provisions	202	(178)	24	(1)	4	0	(10)	0	17
Warranties	158	0	158	1	86	(3)	(46)	(20)	176
Litigations and claims	202	0	202	0	42	0	(14)	0	230
Personnel charges	478	0	478	0	236	(6)	(267)	(5)	436
Restructuring measures / pre-retirement part-time work	271	0	271	1	95	(33)	(91)	(11)	232
Obligation from services and maintenance agreements	255	0	255	1	50	0	(51)	(1)	254
Other risks and charges	714	29	743	1	261	6	(111)	(72)	828
Total	**4,445**	**(149)**	**4,296**	**187**	**1,469**	**(65)**	**(1,068)**	**(254)**	**4,565**

(1) *Due to revised IAS 1 "Presentation of Financial Statements", the current income tax provision in the amount of €178 million was reclassified to tax liabilities. Due to the application of revised IAS 16 "Property, plant and equipment", the provision for "Other risks and charges" had to be restated by €29 million.*

The provision for aircraft financing risks fully covers, in line with the Group's policy for sales financing risk, the net exposure to aircraft financing of €522 million (€466 million at 31st December 2004) and asset value risks of €647 million (€473 million at 31st December 2004) related to Airbus and ATR (see Note 29 "Commitments and contingencies").

The use of the provision for restructuring measures / pre-retirement part-time work mainly relates to restructuring measures in the divisions Defence & Security Systems and Space.

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.

22. Financial liabilities

In 2004, the EIB (European Investment Bank) granted a long-term loan to EADS in the amount of US$421 million, bearing a fixed interest rate of 5.1%. In 2003, EADS issued two Euro denominated bonds under its EMTN Programme (Euro Medium Term Note Programme). The first issue of €1 billion with expected final maturity in 2010 carries a coupon of 4.625% which was swapped into variable rate of 3M-Euribor +1.02%. The second issue of €0.5 billion maturing in 2018 carries a coupon of 5.5% which was swapped during 2005 into variable rate of 3M-Euribor +1.81%.

Financial liabilities include liabilities connected with sales financing transactions amounting to €2,074 million, thereof €568 million at a fixed interest rate of 9.88% and the remaining amount mainly at variable interest rates.

Non recourse Airbus financial liabilities (risk is supported by external parties) amount to €1,247 million (in 2004: €988 million).

Defeased bank deposits for aircraft financing of €1,102 million and €1,089 million as of 31st December 2005 and 2004 respectively have been offset against financial liabilities.

	31st December	
(in €m)	**2005**	**2004**
Bonds	1,659	1,648
thereof due in more than five years: 1,519 (31st December 2004: 1,511)		
Liabilities to financial institutions	1,352	1,629
thereof due in more than five years: 972 (31st December 2004: 1,369)		
Loans	937	910
thereof due in more than five years: 528 (31st December 2004: 672)		
Liabilities from finance leases	241	218
thereof due in more than five years: 78 (31st December 2004: 46)		
Long-term financial liabilities	**4,189**	**4,405**
Bonds	0	23
Liabilities to financial institutions	146	145
Liabilities to affiliated companies	112	110
Loans	207	143
Liabilities from finance leases	87	52
Others	356	345
Short-term financial liabilities (due within one year)	**908**	**818**
Total (1)	**5,097**	**5,223**

(1) *Due to the adoption of IFRIC 4 "Determining whether an Arrangement contains a Lease" (released 2004), financial liabilities include a restatement at 31st December 2004, in the amount of €97 million.*

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

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

(in €m)	**Financial liabilities**
2006	908
2007	306
2008	317
2009	259
2010	209
Thereafter	3,098
Total	**5,097**

23. Liability for puttable instruments

As of 1st January 2005 EADS adopted retrospectively IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) and accounted for a liability for the 20% interest of BAE Systems in Airbus in the amount of €3.5 billion. For further details please refer to "Changes in accounting policy" in Note 2 "Summary of significant accounting policies".

24. Other liabilities

	31st December	
(in €m)	**2005**	**2004**
Non-current other liabilities		
Thereof customer advance payments	4,911	3,985
Thereof European Governments refundable advances	4,950	4,781
Others	110	11
Total	**9,971**	**8,777**
Current other liabilities		
Thereof customer advance payments	14,078	10,884
Thereof European Governments refundable advances	343	338
Thereof tax liabilities (excluding income tax)	690	612
Thereof liabilities to affiliated companies	93	35
Thereof liabilities to related companies	31	74
Others	1,931	1,779
Total	**17,166**	**13,722**

The increase in European Governments refundable advances relates mostly to accrued interest. Regarding the interest expense on European Governments refundable advances see Note 10 “Total finance costs”. 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 Governments refundable advances are accounted for by EADS within “Other liabilities” on the balance sheet including accrued interest.

A part of the advance payments received has previously been recorded as a deduction from inventories. Previous year figure has been adjusted accordingly with an amount of €9,259 million (thereof non-current other liabilities of €632 million and current other liabilities of €8,627 million).

Included in “Other liabilities” are €15,986 million (€13,709 million as of 31st December 2004) due within one year and €5,621 million (€3,918 million as of 31st December 2004) maturing after more than five years.

25. Trade liabilities

As of 31st December 2005, trade liabilities amounting to €54 million (€155 million as of 31st December 2004) mature after more than one year.

26. Deferred income

	31st December	
(in €m)	**2005**	**2004**
Non-current deferred income	1,324	1,490
Current deferred income	573	501
Total	**1,897**	**1,991**

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 (€1,467 million and €1,567 million as of 31st December 2005 and 2004, respectively).

Notes to the Consolidated Statements of Cash-Flows (IFRS)

27. Consolidated Statement of Cash Flows

As of 31st December 2005, EADS' cash position (stated as cash and cash equivalents in the Consolidated Statement of Cash-Flows) includes €1,202 million (€687 million, €273 million as of 31st December 2004 and 2003) representing the amount Airbus has deposited at BAE Systems. Additionally included are €579 million, €602 million and €613 million as of 31st December 2005, 2004 and 2003, respectively, which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAE Systems and Finmeccanica and are available upon demand.

The change in financial liabilities in 2005 results from additions to financial liabilities in the amount of €456 million (in 2004: €1,302 million) and repayments of €(800) million (in 2004: €(828) million).

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

(in €m)	**31st December 2005**
Total purchase price	(131)
thereof paid in cash and cash equivalents	(131)
Cash and cash equivalents included in the acquired subsidiaries	0
Cash Flow for acquisitions, net of cash	**(131)**

Included in the aggregate net purchase price in 2005 of €(131) million is mainly the acquisition of Nokia's Professional Mobile Radio – PMR activities (EADS Secure Networks Oy). In addition, there have been cash investments mainly in Dornier GmbH which had been already fully consolidated.

(in €m)	**31st December 2005**
Property, plant and equipment	21
Financial assets	0
Inventories	4
Trade receivables	11
Other assets	27
Cash and cash equivalents	0
Assets	**63**
Provisions	(4)
Trade liabilities	0
Financial liabilities	0
Other liabilities	(1)
Liabilities	**(5)**
Net assets	**58**
Goodwill arising on acquisitions	73
Less own cash and cash equivalents of acquired subsidiaries	0
Cash Flow for acquisitions, net of cash	**131**

The following charts provide details on **disposals** (resulting in assets and liabilities disposed) of subsidiaries:

(in €m)	**31st December 2005**
Total selling price	110
thereof received by cash and cash equivalents	110
Cash and cash equivalents included in the (disposed) subsidiaries	(21)
Cash Flow from disposals, net of cash	**89**

Included in the aggregate net selling price in 2005 of €89 million are the sale of the 50% participation in TDA – Armements S.A.S. to Thales and the sale of the Enterprise Telephony Business to Aastra.

(in €m)	31st December 2005
Property, plant and equipment	(12)
Financial assets	0
Inventories	(34)
Trade receivables	(64)
Other assets	(34)
Cash and cash equivalents	(21)
Assets	**(165)**
Provisions	16
Trade liabilities	18
Financial liabilities	13
Other liabilities	45
Liabilities	**92**
Net assets	**(73)**
Goodwill arising from disposals	(6)
Result from disposal of subsidiaries	(31)
Less own cash and cash equivalents of disposed subsidiaries	21
Cash Flow from disposals, net of cash	**(89)**

Other Notes to the Consolidated Financial Statements (IFRS)

28. 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.

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

EADS is not aware of any 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 21 d.) “Other provisions”.

29. 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 13 “Property, plant and equipment”) or (ii) a loan from aircraft financing or (iii) a finance lease receivable (see Note 14 “Investments in associates, other investments and long-term financial assets”) or (iv) non-current assets classified as held for sale. As of 31st December 2005, related accumulated impairment amounts to €319 million (2004: €532 million) for operating lease, €396 million (2004: €466 million) for loans and finance lease and €196 million for non-current assets classified as held for sale. As part of provisions for aircraft financial risks €34 million (2004: €33 million) are recorded (see Note 21 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 2006	208
later than 2006 and not later than 2010	989
later than 2010	721
Total	**1,918**
Of which commitments where the transaction has been sold to third parties	(1,092)
Total aircraft lease commitments where EADS bears the risk (not discounted)	**826**

Total aircraft lease commitments of €1,918 million as of 31st December 2005, arise from aircraft head-leases and are typically backed by corresponding sublease income from customers with an amount of €1,364 million. A large part of these lease commitments (€1,092 million as of 31st December 2005) 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 €488 million as of 31st December 2005, as part of the provision for aircraft financing risk (see Note 21 d.) “Other provisions”).

As of 31st December 2005 and 2004, the total consolidated – **on and off balance sheet** – Commercial Aviation Sales Financing Exposure is as follows (Airbus 100% and ATR 50%):

	31st December	
(in €m)	2005	2004
Total gross exposure	3,566	3,681
Estimated fair value of collateral (aircraft)	(2,133)	(2,216)
Net exposure (fully provided for)	**1,433**	**1,465**

Detail of provisions / accumulated impairments are as follows:

	31st December	
(in €m)	**2005**	**2004**
Accumulated impairment on operating leases (see Note 13 "Property, plant and equipment")	319	532
Accumulated impairment on loans from aircraft financing and finance leases (see Note 14 "Investments in associates, other investments and long-term financial assets")	396	466
Accumulated impairment on inventories	0	1
Non-current assets classified as held for sale	196	0
Provisions for aircraft financing risk (on balance sheet) (see Note 21 d.) "Other provisions")	34	33
Provisions for aircraft financing risk (commitment off balance sheet) (see Note 21 d.) "Other provisions")	488	433
Total provisions / accumulated impairments for sales financing exposure	**1,433**	**1,465**

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 2019. 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 13 "Property, plant and equipment" and Note 26 "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 2005 the nominal value of asset value guarantees provided to airlines, that do not exceed the 10% criteria, amount to €1,054 million, excluding €507 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 €647 million (see Note 21 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 2005 will generally not be exercisable prior to 2015, 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 BAE Systems 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 credit risks, such commitments typically contain financial conditions which guaranteed parties must satisfy in order to benefit therefrom.

***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, UK employees may stay in the BAE Systems pensions schemes, which currently qualify as multi-employer defined benefit plans. BAE Systems is applying IFRS as of 1st January 2005. In accordance with IAS 19, BAE Systems has disclosed for its UK defined pension schemes a net (pre tax) pension liability as of 31st December 2005 in a total amount of GBP 4,659 million. As participants in the BAE Systems schemes, EADS investments are potentially affected by any shortfall of BAE Systems schemes. 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 (until July 2011 for Airbus and until December 2007 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. In the course of 2005, EADS has requested detailed information about these pension schemes. Based on limited information made available, EADS has judged this information not to be sufficient to properly allocate the pension plans' deficit and is therefore not able to reliably determine its participation in any potential future deficit once the period of contribution caps will have expired. Consequently, EADS continues to expense the contributions made to the pension schemes 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 €1,038 million as of 31st December 2005, and relate mainly to procurement operations (e.g., facility leases, car rentals).

Maturities are as follows:

(in €m)	
Not later than 2006	109
Later than 2006 and not later than 2010	342
Later than 2010	587
Total	**1,038**

30. 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 U.S. 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 U.S. 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-U.S. 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.

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 U.S. 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 U.S. 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 rates 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 (€3.0 billion as of 31st December 2005). 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.

Cash transactions and derivative counterparts are limited to high credit quality financial institutions. For such financial transactions 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.

Sales of products and services are made to customers after having conducted an appropriate internal credit risk assessment. 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 2005	Remaining period			
(in €m)	not exceeding 1 year	1 year up to 5 years	more than 5 years	Total
Foreign Exchange Contracts:				
Net forward sales contracts	9,653	27,076	365	**37,094**
Structured USD forward:				
Purchased USD call options	119	573	0	**692**
Purchased USD put options	1,495	1,190	0	**2,685**
Written USD call options	1,495	1,190	0	**2,685**
FX swap contracts	625	0	117	**742**

Year ended 31st December 2004	Remaining period			
(in €m)	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**

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

Year ended 31st December 2005	Remaining period			
(in €m)	not exceeding 1 year	1 year up to 5 years	more than 5 years	Total
Interest Rate Contracts	105	1,504	2,921	**4,530**
Caps	0	1,000	0	**1,000**

Year ended 31st December 2004	Remaining period			
(in €m)	not exceeding 1 year	1 year up to 5 years	more than 5 years	Total
Interest Rate Contracts	30	298	2,818	**3,146**
Caps	0	1,000	0	**1,000**

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 2005 and 2004:

31st December 2005			
(Interest rate in %)	**EUR**	**USD**	**GBP**
6 months	2.61	4.68	4.54
1 year	2.84	4.83	4.53
5 years	3.21	4.87	4.53
10 years	3.45	4.96	4.46

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

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

	31st December			
	2005		**2004**	
(in €m)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Non-derivative Financial Instruments				
Assets:				
Non-current securities	1,011	1,011	466	466
Current portion of long-term financial assets	237	237	242	242
Current securities	29	29	0	0
Cash and cash equivalents	9,546	9,546	8,718	8,718
Liabilities:				
Financial liabilities (long-term and short-term)	5,097	5,381	5,223	5,508
Derivative Financial Instruments				
Currency contracts with positive fair values	3,913	3,913	8,925	8,925
Currency contracts with negative fair values	(749)	(749)	(95)	(95)
Interest rate contracts with positive fair values	40	40	23	23
Interest rate contracts with negative fair values	(151)	(151)	(86)	(86)
Embedded foreign currency derivatives with (negative) positive fair values	(21)	(21)	86	86

The fair value of financial liabilities as of 31st December 2005 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 €5,293 million (in 2004: €5,119 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 recognised in AOCI is as of 31st December 2005 and 2004 as follows (for previous year figures adjustments please refer to Note 2 "Summary of significant accounting policies" – IAS 32 "Financial Instruments"):

(in €m)	Equity attributable to the equity holders of the parent
1st January 2004	**5,037**
Unrealized gains and losses from valuations, net of tax	1,986
Transferred to profit or loss for the period, net of tax	(1,376)
Changes in fair values of hedging instruments recorded in AOCI, net of tax	610
31st December 2004 / 1st January 2005	**5,647**
Unrealized gains and losses from valuations, net of tax	(2,476)
Transferred to profit or loss for the period, net of tax	(1,209)
Changes in fair values of hedging instruments recorded in AOCI, net of tax	(3,685)
31st December 2005	**1,962**

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 2005 and 2004, 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 and as such accounted for at amortised cost.

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 2005 and 2004.

31. Share-based Payment

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 2005, 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 2005 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.

In 2005, compensation expense for Stock Option Plans was recognised with an amount of €24 million (2004: €12 million). The Fair Value of one Option granted under the plan was €7.27 as of grant date.

The following major input parameters where used in order to calculate the fair value of the stock options granted:

Input parameters for the Black Scholes Option Pricing Model

	SOP 2005	SOP 2004	SOP 2003
Share price (€)	32.79	22.83	14.75
Exercise price (€)	33.91	24.32	15.65
Risk-free interest rate (%)	3.24	3.35	3.58
Expected volatility (%)	24.8	27.0	27.0
Estimated option life (years)	5.5	5.5	5.5

EADS uses the historical volatilities of its share price as an indicator to estimate the volatility of its stock options granted. To test whether those historical volatilities sufficiently approximate expected future volatilities, they are compared to the implied volatilities of EADS options, which are traded at the market as of grant date. Such options typically have a shorter life of up to two years. In case of only minor differences between the historical volatilities and the implied volatilities, EADS uses historical volatilities as input parameters to the Black Scholes Option Pricing Model (please refer to Note 2 "Summary of significant accounting policies"). For valuation purposes performance criteria are considered to be met.

The estimated option life of 5.5 years is based on historical experience and incorporates the effect of expected early exercises.

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 Directors 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	2,440,381	104,350	5,288,723
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%	100%	100%
Exercise Price	€20.90	€20.90	€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	2,179,019	119,650	2,069,027

	Fourth Tranche	Fifth Tranche	Sixth Tranche
Date of shareholders' Meeting	10th May 2001	6th May 2003	6th May 2003
Date of Board of Directors 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	4,359,189	6,493,005	7,699,060
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	100%	50%	0%
Exercise price	€16.96	€15.65	€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	2,672,036	885,125	0

	Seventh Tranche
Date of shareholders' Meeting	11th May 2005
Date of Board of Directors meeting (grant date)	9th December 2005
Number of options granted	7,981,760
Number of options outstanding	7,981,760
Total number of eligible employees	1,608
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 seventh 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	0%
Exercise price	€33.91
Exercise price conditions	110% of fair market value of the shares at the date of grant
Number of exercised options	0

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

First & Second Tranches	Number of Options				
	Options granted	Balance at 1st January	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
2005	-	4,873,900	(2,208,169)	(121,000)	2,544,731
Third Tranche	**Number of Options**				
	Options granted	**Balance at 1st January**	**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
2005	-	7,490,225	(2,069,027)	(132,475)	5,288,723
Fourth Tranche	**Number of Options**				
	Options granted	**Balance at 1st January**	**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
2005	-	6,777,828	(2,409,389)	(9,250)	4,359,189
Fifth Tranche	**Number of Options**				
	Options granted	**Balance at 1st January**	**Exercised**	**Forfeited**	**Balance at 31st December**
2003	7,563,980	-	-	-	7,563,980
2004	-	7,563,980	(9,600)	(97,940)	7,456,440
2005	-	7,456,440	(875,525)	(87,910)	6,493,005
Sixth Tranche	**Number of Options**				
	Options granted	**Balance at 1st January**	**Exercised**	**Forfeited**	**Balance at 31st December**
2004	7,777,280	-	-	-	7,777,280
2005	-	7,777,280	-	(78,220)	7,699,060
Seventh Tranche	**Number of Options**				
	Options granted	**Balance at 1st January**	**Exercised**	**Forfeited**	**Balance at 31st December**
2005	7,981,760	-	-	-	7,981,760
Total	**44,688,854**	**-**	**(7,924,857)**	**(2,397,529)**	**34,366,468**

b) Employee Stock Ownership Plan (ESOP)

In 2005, the Board of Directors approved an additional ESOP following five ESOPs established in 2004, 2003, 2002, 2001 and in 2000. For the 2005 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 €18.86. 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 3rd June 2005 resulting in a subscription price of €18.86.

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 1,938,309 ordinary shares with a nominal value of €1.00 under both tranches. Compensation expense was recognised in connection with the ESOP 2005 of €9 million.

32. Related party transactions

Related parties – The Group has entered into various transactions with related companies in 2005, 2004 and 2003 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 Eurocopter, Defence & Security Systems, and Space divisions.

Remuneration – Remuneration and related compensation costs of all of the members of the Board of Directors and former Directors amounted to €10 million for the period ended 31st December 2005 (in 2004: €9 million). These amounts do not comprise the amounts allocated in 2005 to the former CEOs under the terms of their employment contracts as termination packages (€2.55 million each, i.e. 18 months of total target income) as well as the estimated cost of stock-based compensation of Directors.

EADS has not provided any loans to / advances to / guarantees on behalf of Directors or former Directors.

In 2005, total remuneration of EADS Executive Committee members in office as at 31st December 2005 (therefore excluding former Executive Committee members, but including those Executive Board Directors who are also Executive Committee members) amounted to €13 million. Additionally, stock options granted in 2005 for this group of managers represented 960,000 options.

The Executive Committee 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 CEOs, the retirement age is 60. This obligation increases to 60% after ten years of service in the EADS Executive Committee.

For the Executive Committee members, the cumulative amount of current service cost and interest cost related to their benefit obligation accounted for during fiscal year 2005 represented an expense of €3 million.

The Executive Committee members are furthermore entitled to a termination package when they leave the Company as a result of a decision of the Company. The employment contracts for the Executive Committee members are concluded for an indefinite term with an indemnity of up to a maximum of 24 months of their target income. The maximum 24 months indemnity can be reduced prorata depending on the age of departure.

Executive Committee members are also entitled to a company car.

33. Investment property

The Group owns investment property, that is leased to third parties. For the purposes of IAS 40 "Investment property" the fair values have been determined by using market based multipliers 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 2004	Book value 31st December 2004	Transfer Historical cost	Depreciation Amortisation	Transfer Accumulated depreciation	Accumulated depreciation 31st December 2005	Net at 31st December 2005
Book value of Investment property	251	(92)	159	2	(18)	(9)	(119)	134

As of 31st December 2005, the fair value of the Group's investment property amounts to €134 million. Related rental income in 2005 is €15 million with direct operating expenses amounting to €8 million.

Included in the depreciation is an impairment charge of €8 million recognised in Cost of Sales.

34. 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 significant joint ventures (MBDA and ATR):

(in €m)	2005	2004
Non current assets	680	653
Current assets	3,379	3,768
Non current liabilities	361	353
Current liabilities	3,162	3,651
Revenues	1,828	1,732
Profit for the period	121	99

35. Earnings per share

The profit for the period attributable to equity holders of the parent (Net income) for 2004 and 2003 was adjusted due to retrospective application of IFRS 2 "Share-based Payment" amounting to €(12) million in 2004 (in 2003: €0 million) and IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) in 2004 with an amount of €185 million (in 2003: €54 million).

Basic earnings per share – Basic earnings per share are calculated by dividing profit for the period attributable to equity holders of the parent (Net income) by the weighted average number of issued ordinary shares during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

	2005	2004	2003
Profit for the period attributable to equity holders of the parent (Net income)	€1,676 million	€1,203 million	€206 million
Weighted average number of ordinary shares	794,734,220	801,035,035	800,957,248
Basic earnings per share	€2.11	€1.50	€0.26
Thereof effect from the initial application of IAS 32 (revised) "Liability for puttable instruments"	*€0.36*	*€0.23*	*€0.07*
Thereof effect from the initial application of IFRS 2 "Share-based payment"	*€(0.04)*	*€(0.02)*	*€0*

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 2005, the average share price of EADS exceeded the exercise price of the stock options under the 1st, 2nd, 3rd, 4th, 5th, and 6th stock option plan (in 2004: 4th and 5th stock option plan). Hence, 5,482,133 shares (2004: 3,047,837 shares) were considered in the calculation of diluted earnings per share. In 2003, there was no dilution impact of shares under all existing stock option plans. As a consequence, the weighted average number of shares outstanding was the same for both basic and diluted earnings per share.

	2005	2004	2003
Profit for the period attributable to equity holders of the parent (Net income)	€1,676 million	€1,203 million	€206 million
Weighted average number of ordinary shares	800,216,353	804,082,872	800,957,248
Diluted earnings per share	€2.09	€1.50	€0.26
Thereof effect from the initial application of IAS 32 (revised) "Liability for puttable instruments"	*€0.36*	*€0.23*	*€0.07*
Thereof effect from the initial application of IFRS 2 "Share-based payment"	*€(0.04)*	*€(0.01)*	*€0*

36. Number of Employees

The number of employees at 31st December 2005 is 113,210 as compared to 110,662 at 31st December 2004.

37. Events after the balance sheet date

On 7th March 2006 Airbus published the decision to progressively phase out the final assembly line of the wide body program (A300 / A310). It is intended that the last A300-600 aircraft on order will be handed over in July 2007. In 2005 Airbus delivered nine A300 aircraft to customers. Employees involved in the production of wide body aircraft will be transferred to other Airbus aircraft programs. EADS estimates the impact on its financial position and result to be not material.

On 28th February 2006 the integration of LFK GmbH into the European missile systems group MBDA has received clearance from the European Commission and the German Ministry of Economics and Technology. The legal formalities allowing this operation have been successfully completed. LFK achieves together with its subsidiary companies with approximately 1,100 employees an annual turnover of approximately €400 million. MBDA is jointly owned by BAE Systems (37.5%), EADS (37.5%) and Finmeccanica (25%).

On 30th December 2005, ThyssenKrupp Technologies and EADS have signed an agreement with BAE Systems on the joint acquisition of Atlas Elektronik, Bremen. In accordance with the agreement, ThyssenKrupp Technologies will hold 60 percent of Atlas and EADS 40 percent. The acquisition will be completed in 2006 as soon as the relevant supervisory boards and the relevant antitrust authorities have given their go-aheads. With a workforce of 1,750, Atlas Elektronik is a company for electronics and systems and specializes in equipment and systems for naval forces.

The financial statements have been authorized for issuance by the Board of Directors on 7th March 2006.

Appendix: Information on principal investments - Consolidation Scope

2005	%	2004	%	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	AA Credit Aircraft Leasing Limited	Isle of Man
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	AFS USA 1 inc	USA
F	80.00	F	80.00	AI leasing Inc.	USA
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.	USA
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 B.V.	Netherlands
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 S.A.	France
F	80.00	F	80.00	Airbus Invest	Toulouse (France)
F	80.00	F	80.00	Airbus North America engineering (former Wichita)	USA
F	80.00	F	80.00	Airbus North American Holdings Inc. (AINA)	USA
F	80.00	F	80.00	Airbus S.A.S	Toulouse (France)
F	80.00	F	80.00	Airbus Service Company Inc. (ASCO)	USA
F	80.00	F	80.00	Airbus Transport International S.N.C. (ATI)	Blagnac (France)
F	80.00			Airbus Treasury Company	Ireland
F	80.00	F	80.00	Airbus UK Limited	UK
		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

F: Fully consolidated P: Proportionate E: Equity method

The stated percentage of ownership is related to the respective parent company.

2005	%	2004	%	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	E	26.40	Avion Capital Limited	Ireland
F	80.00	F	80.00	Avion Finance Limited	Ireland
F	80.00			AVSA Canada Inc.	Canada
F	80.00	F	80.00	AVSA SARL	Blagnac (France)
		F	80.00	KID-Systeme GmbH	Buxtehude (Germany)
F	80.00	F	80.00	Norbus	USA
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 46 SPEs.					
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	76.41	F	75.00	EADS PZL "WARSZAWA-OKECIE" S.A.	Warsaw (Poland)
Eurocopter					
F	100.00	F	100.00	American Eurocopter Corp.	Dallas, Texas (USA)
F	60.00	F	60.00	American Eurocopter LLC	Dallas, Texas (USA)
F	75.00	F	75.00	Eurocopter South East Asia Pte. Ltd.	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	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.S.	Marignane (France)
F	76.52	F	76.52	Helibras - Helicopteros do Brasil S.A.	Itajuba (Brazil)
F	100.00			Australian Aerospace Ltd.	Bankstown (Australia)
F	100.00			EIP Holding Pty. Ltd.	Bankstown (Australia)
F	100.00			AA New Zealand Pty. Ltd.	Bankstown (Australia)
F	100.00			AA military maintenance Pty. Ltd.	Brisbane (Australia)
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	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	Defense Security Systems Solutions Inc. (in 2004: ARC)	San Antonio, Texas (USA)
F	100.00			Dornier Consulting GmbH	Friedrichshafen (Germany)

F: Fully consolidated P: Proportionate E: Equity method

The stated percentage of ownership is related to the respective parent company.

2005	%	2004	%	Company	Head office
F	100.00	F	100.00	Dornier Flugzeugwerft GmbH	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS CASA S.A. (Unit: Military Aircraft)	Madrid (Spain)
F	100.00	F	100.00	EADS CASA S.A. (Unit: Operations Service)	Madrid (Spain)
F	100.00	F	100.00	EADS Defence & Security Systems Limited - Holding (in 2004: EADS Telecom UK Ltd.)	Newport, Wales (UK)
F	100.00	F	100.00	EADS Defence & Security Systems Limited (in 2004: Cogent Defence & Security Networks)	Newport, Wales (UK)
F	100.00	F	100.00	EADS Defence & Security Systems S.A.	Velizy (France)
F	100.00	F	100.00	EADS Deutschland GmbH - Dornier Services	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH - Dornier Verteidigung und Zivile Systeme	Friedrichshafen (Germany)
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 Deutschland GmbH (Unit: Operations Services)	Unterschleißheim (Germany)
F	100.00			EADS North America Defense Company	Wilmington, Delaware (USA)
F	100.00	F	100.00	EADS Operations & Services UK	Yeovil, Somerset (UK)
F	100.00	F	100.00	EADS Secure Networks SAS (in 2004: EADS Telecom SAS)	Bois-d'Arcy (France)
F	100.00			EADS Secure Networks Oy	Helsinki (Finland)
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	EADS Telecom Benelux	Bruxelles (Belgium)
		F	100.00	EADS Telecom Danmark	Copenhague (Denmark)
F	100.00	F	100.00	EADS Telecom Deutschland GmbH	Ulm (Germany)
F	100.00	F	100.00	EADS Telecom Deutschland GmbH	Unterschleißheim (Germany)
F	100.00	F	100.00	EADS Telecom Espana	Madrid (Spain)
		F	100.00	EADS Telecom Federal Systems Division	San Antonio, Texas (USA)
		F	100.00	EADS Telecom Inc	Dallas, Texas (USA)
F	100.00	F	100.00	EADS Telecom Mexico S.A. de CV	Mexico DF (Mexico)
		F	98.95	EADS Telecom North America Inc	Dallas, Texas (USA)
		F	100.00	EADS Telecom Spa	Milan (Italy)
E	30.00			ESG Elektroniksystem- und Logistikgesellschaft	Munich (Germany)
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	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	Hohn (Germany)
F	100.00	F	100.00	Hagenuk Marinekommunikation GmbH	Flintbek (Germany)
		F	98.95	Intecom Holding ULC	Dallas, Texas (USA)

F: Fully consolidated P: Proportionate E: Equity method

The stated percentage of ownership is related to the respective parent company.

2005	%	2004	%	Company	Head office
F	100.00			Integrated Defense Systems NA	Wilmington, Delaware (USA)
F	81.25	F	81.25	LFK – Lenkflugkörpersysteme GmbH	Unterschleißheim (Germany)
		F	100.00	LFK Objekt Nabern GmbH & Co.KG	Unterschleißheim (Germany)
		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	Westlake, CA (USA)
P	37.50	P	37.50	MBDA Italy SpA	Roma (Italy)
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	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 Ferté-Saint-Aubin (France)
		F	98.95	Pyderion Contact Technologies Inc.	Dallas, Texas (USA)
F	100.00	F	100.00	Racal Instruments U.S.	San Antonio, Texas (USA)
F	100.00	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	100.00			Talon Instruments	San Dimas, CA (USA)
F	67.00	F	67.00	TAURUS Systems GmbH	Schrobenhausen (Germany)
		P	50.00	TDA – Armements S.A.S.	La Ferté-Saint-Aubin (France)
F	98.00	F	98.00	TDW- Ges. für verteidigungstechnische Wirksysteme GmbH	Schrobenhausen (Germany)
E	25.00	E	25.00	Telefunken Radio Communication Systems GmbH & Co. KG	Ulm (Germany)
F	100.00	F	100.00	Test & Services France (in 2004: International Test & Services)	Velizy (France)
F	99.99	F	99.99	Test & Services North America	Wilmington, Delaware (USA)
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: Fully consolidated P: Proportionate E: Equity method

The stated percentage of ownership is related to the respective parent company.

	2005	%	2004	%	Company	Head office
	F	90.00	F	90.00	UTE CASA A.I.S.A.	Madrid (Spain)
Space						
	F	100.00	F	100.00	Computadoras, Redes e Ingenieria S.A. (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)
	F	100.00	F	100.00	EADS Deutschland GmbH – Space Services	Munich (Germany)
			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	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 Mureaux (France)
			F	100.00	Global DASA LLC	New York (USA)
	F	100.00	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)
Other Businesses						
	F	80.00	F	80.00	Aerobail GIE	Paris (France)
	P	50.00	P	50.00	ATR Eastern Support	Singapore (Singapore)
	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 (Irland)
	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)
	F	100.00	F	100.00	EADS ATR S.A.	Toulouse (France)
			F	100.00	EADS EFW Beteiligungs- und Verwaltungsgesellschaft GmbH	Munich (Germany)
	E	49.99	E	49.99	EADS Revima APU S.A.	Caudebec-en-Caux (France)

F: Fully consolidated P: Proportionate E: Equity method

The stated percentage of ownership is related to the respective parent company.

2005	%	2004	%	Company	Head office
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	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 23 SPCs.					
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	46.30	E	46.22	Dassault Aero Service	(France)
E	46.30	E	46.22	Dassault Assurances Courtage	(France)
E	46.30	E	46.22	Dassault Aviation	Paris (France)
E	46.30	E	46.22	Dassault Falcon Jet	Teterboro N.J. (USA)
E	46.30	E	46.22	Dassault Falcon Service	Bonneuil-en-France
E	46.30	E	46.22	Dassault International (USA) Inc.	Paramus N.J. (USA)
E	46.30	E	46.22	Dassault Procurement Services Inc.	Paramus N.J. (USA)
E	46.30	E	46.22	Dassault-Reassurance	(France)
E	46.30	E	46.22	Dassault Sagem Tactical U A V	(France)
F	97.11	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)
F	100.00	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	EADS Raumfahrt Beteiligungs GmbH	Ottobrunn (Germany)
F	100.00			EADS Dornier Raumfahrt Holding GmbH	Ottobrunn (Germany)
F	97.11	F	93.58	EADS Real Estate Dornier Grundstücke GmbH & Co. KG	Taufkirchen (Germany)
F	100.00			EADS Real Estate Objekt Nabern GmbH & Co. KG (in 2004: LFK Objekt Nabern GmbH & Co. KG)	Taufkirchen (Germany)
E	46.30	E	46.22	Sogitec Industries	Suresnes (France)

F: Fully consolidated P: Proportionate E: Equity method

The stated percentage of ownership is related to the respective parent company.

Auditors' Report on the Consolidated Financial Statements (IFRS)

Introduction

We have audited the accompanying consolidated financial statements which are part of the financial statements of European Aeronautic Defence and Space Company EADS N.V., Amsterdam, for the year 2005. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the company as at 31st December 2005 and of the result and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Furthermore we have established to the extent of our competence that the report of the Board of Directors is consistent with the consolidated financial statements.

Rotterdam, March 7, 2006
KPMG Accountants N.V.
L.A. Blok

Amsterdam, March 7, 2006
Ernst & Young Accountants
M. van Dam

1.2.2 Company Financial Statements

Balance Sheet of the Company Financial Statements

(in €m)		31st December	
	Note	2005	2004
Assets			
Goodwill	2	4,354	4,354
Financial assets	2	11,638	13,944
Loans	2	1,740	695
Fixed assets		**17,732**	**18,993**
Receivables and other assets	3	3,959	2,248
Securities	4	846	304
Cash and cash equivalents	4	7,252	6,985
Non-fixed assets		**12,057**	**9,537**
Total assets		**29,789**	**28,530**
Liabilities and stockholders' equity			
Capital stock	5	818	810
General reserves	5	12,908	15,400
Stockholders' equity		**13,726**	**16,210**
Financial liabilities		357	309
Liability for puttable instruments	6	3,500	3,500
Other liabilities	7	12,206	8,511
Liabilities		**16,063**	**12,320**
Total liabilities and stockholders' equity		**29,789**	**28,530**

Income Statement of the Company Financial Statements

(in €m)	2005	2004
Income from investments	1,692	1,216
Other results	(16)	(13)
Net result	**1,676**	**1,203**

Notes to the Company Financial Statements

1.1 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 company financial statements are part of the 2005 financial statements of EADS N.V.

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

1.2 Principles for the measurement of assets and liabilities and the determination of the result

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company financial statements, EADS N.V. makes use of the option provided in section 2:362 (8) of the Netherlands Civil Code. As from 2005, the Netherlands Civil Code allows that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the company financial statements of EADS N.V. are the same as those applied for the consolidated EU-IFRS financial statements. These consolidated EU-IFRS financial statements are prepared according to the standards laid down by the International Accounting Standards Board and adopted by the European Union (hereinafter referred to as EU-IFRS). Please see note 2 of the consolidated financial statements for a description of these principles. Participating interests, over which significant influence is exercised, are stated on the basis of the equity method.

The share in the result of participating interests consists of the share of EADS N.V. in the result of these participating interests. Results on transactions, where the transfer of assets and liabilities between EADS N.V. and its participating interests and mutually between participating interests themselves, are not incorporated insofar as they can be deemed to be unrealised.

1.3 Changes in accounting policies

As a result of the application of the accounting principles used in the consolidated financial statements to the company financial statements, EADS N.V. has implemented changes in accounting policies. These changes in accounting policies are the result of using the option in section 2:362 (8) of the Netherlands Civil Code: By making use of this option consistency is maintained between the consolidated and the company shareholders' equity.

The company financial statements were previously prepared in compliance with the principles for recognition and measurement of assets and liabilities and determination of the result referred to in Part 9, Book 2 of the Netherlands Civil Code (BW2). The changes in accounting policies, which are treated retrospectively, have had an effect on the shareholders' equity and the result. The impact on the shareholders' equity as at 31st December 2004 and on the net result 2004 is an increase of €543 million.

For the purposes of comparison, the comparative figures have been adjusted on the basis of the changed accounting principles.

The reconciliation summaries for the company balance sheet and profit and loss account, in which the effects of the changes in accounting policies are stated for each item of the financial statements, are included under sections 1.4 and 1.5.

1.4 Summary of the effect of changes in accounting policies on the balance sheet

The effect of the changed accounting policies in the company balance sheet is shown in the summary below.

31st December 2003

(in €m)	Principles for recognition and measurement of part 9, BW 2	Effect of changes to principles of recognition and measurement to IFRS			Principles for recognition and measurement of IFRS
		IFRS 3	IAS 16	IAS 32	
Financial Assets	9,647		(30)	2,530	12,147
Liability for puttable instruments				3,500	3,500
Stockholders' Equity	16,149		(30)	(970)	15,149

31st December 2004

(in €m)	Principles for recognition and measurement of part 9, BW 2	Effect of changes to principles of recognition and measurement to IFRS			Principles for recognition and measurement of IFRS
		IFRS 3	IAS 16	IAS 32	
Goodwill	4,091	263			4,354
Financial Assets	10,927	280	(30)	2,767	13,944
Liability for puttable instruments				3,500	3,500
Stockholders' Equity	16,430	543	(30)	(733)	16,210

1.4.1 Notes to the changes in accounting policies on the balance sheet

The reconciliation of the stockholders' equity is specified as follows:

EADS adopted IFRS 3 "Business Combination", revised; IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets" and applied these standards as of 1st January 2004 in the consolidated IFRS financial statements. As a consequence, goodwill was no longer amortized on a straight-line basis in the consolidated IFRS financial statements. Under Dutch law, goodwill was amortized on a straight-line basis over a period not exceeding 20 years. The impact of the reversal of the goodwill amortisation in 2004 on stockholders' equity as of December 2004 is an increase of €543 million.

As of 1st January, EADS applied the component approach as set out in the revised IAS 16. Under this approach foreseeable costs of major future servicing and major components to be replaced during the life-time of an item of property, plant and equipment are depreciated separately over their respective useful lives. Due to the application of IAS 16, the stockholders' equity decreased as of 31st December 2004 and 31st December 2003 by €30 million. For further information, please see Note 2 of the consolidated financial statements.

With the application of IAS 32 as of 1st January 2005 EADS recognizes under certain circumstances the exercise price of a written put option as liability rather than an equity instrument. Following IAS 8, the adoption of revised IAS 32 is treated as a change in accounting policy firstly effecting 31st December 2005 with corresponding adjustments to the prior periods presented. The application of IAS 32 had a negative impact on stockholders' equity as of December 2004 of €733 million and €970 million in the previous year. For further information, please see Note 2 of the consolidated financial statements.

1.5 Summary of the effect of changes in accounting policies on the income statement

The effect of the changed accounting principles on the company income statement for the 2004 financial year is shown in the following summary:

	Principles for recognition and measurement of	Effect of changes to principles of recognition and measurement to IFRS				Principles for recognition and measurement
(in €m)	**part 9, BW 2**	**IFRS 2**	**IFRS 3**	**IAS 16**	**IAS 32**	**of IFRS**
Income from investment	763	(12)	280		185	1,216
Other results	(276)		263			(13)
Net result	**487**	**(12)**	**543**		**185**	**1,203**

1.5.1 Notes to the changes in accounting policies on the income statement

The reconciliation of the net result for the financial year 2004 is specified as follows:

The impact of the revised accounting policy for share based payments in accordance with IFRS 2 is the recognition of an expense and a corresponding entry to equity for stock option plans and employee stockownership plans. In accordance with the transition rules EADS applied the Standard retrospectively. The corresponding amount in the year 2004 was €12 million. For further information please see note 2 of the consolidated financial statements.

The increase in the net result of €543 million due to the application of IFRS 3 relates to the reversal of the goodwill amortisation under Dutch GAAP in the 2004 company financial statements.

The adoption of the component approach as set out in revised IAS 16 had no impact on the net result in the 2004 company financial statements.

The net result 2004 increased by €185 million due to a prior year adjustment corresponding with the recognition of a written put option as a liability in accordance with the application of IAS 32.

2. Fixed assets

The movements in fixed assets are detailed as follows:

(in €m)	Goodwill	Financial Assets Participating Interests	Loans	Total
Balance at 31st December 2004	**4,354**	**13,944**	**695**	**18,993**
Additions			1,045	1,045
SOP / ESOP		33		33
Net income from investments		1,692		1,692
Fair value adjustments financial instruments / others		(3,594)		(3,594)
Dividends received		(437)		(437)
Balance at 31st December 2005	**4,354**	**11,638**	**1,740**	**17,732**

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)	2005	2004
Receivables from affiliated companies	3,841	2,104
Receivables from related companies	26	42
Other assets	92	102
Total receivables and other assets	**3,959**	**2,248**

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 31st December 2003	**813**	**8,459**	**858**	**7,474**	**(187)**	**373**	**(2,641)**	**15,149**
Capital increase	2		41					43
Net income							1,203	1,203
ESOP / SOP IFRS 2							12	12
Cash distribution			(320)					(320)
Transfer to legal reserve						181	(181)	0
Repurchase treasury shares					(81)			(81)
Cancellation shares	(5)		(86)		91			0
Other comprehensive income				204				204
Balance at 31st December 2004	**810**	**8,459**	**493**	**7,678**	**(177)**	**554**	**(1,607)**	**16,210**
Capital increase	9		178					187
Net income							1,676	1,676
ESOP / SOP IFRS 2							33	33
Cash distribution			(396)					(396)
Transfer to legal reserve						488	(488)	0
Repurchase treasury shares					(288)			(288)
Cancellation shares	(1)		(19)		20			0
Other comprehensive income				(3,696)				(3,696)
Balance at 31st December 2005	**818**	**8,459**	**256**	**3,982**	**(445)**	**1,042**	**(386)**	**13,726**

For further information to the Stockholders' equity, please see note 20 of the consolidated 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 €580 million (2004: €385 million) and the internally generated capitalized development costs of €462 million (2004: €169 million).

6. Liability for puttable instruments

The liability for puttable instruments relates to the written put option granted to BAE Systems to put its 20% stake in Airbus. For further information please see note 23 of the consolidated financial statements.

7. Other liabilities

(in €m)	2005	2004
Liabilities to affiliated companies	11,400	7,745
Liabilities to related companies	703	680
Other liabilities	103	86
Total	**12,206**	**8,511**

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

8. Commitments and contingent liabilities

EADS N.V. issues guarantees on behalf of consolidated companies. The commitments of these companies to third parties mainly relate to their operating business as included in Note 29 to the Consolidated Financial Statements.

9. Remuneration

The total remuneration and related compensation costs of the Members of the Board of Directors and former directors in 2005 and 2004 can be specified as follows:

(in €)	2005	2004
Fixum	4,908,190	3,949,425
Bonus (related to reporting period)	4,850,449	4,549,050
Fees	260,000	290,000
Total	**10,018,639**	**8,788,475**

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

2005 (in €)	Fixum	Bonus related to 2005	Fees	Total
Directors				
Manfred Bischoff	60,000	184,250	90,000	334,250
Arnaud Lagardère	60,000	184,250	80,000	324,250
Thomas Enders (**)	737,560	820,556	-	1,558,116
Noël Forgeard	1,136,928	1,201,408	-	2,338,336
Jean-Paul Gut (**)	777,568	769,583	-	1,547,151
Hans Peter Ring	780,062	789,762	-	1,569,824
Francois David	20,000	92,125	30,000	142,125
Rüdiger Grube	20,000	92,125	(***)	112,125
Michael Rogowski	30,000	92,125	35,000	157,125
Juan Manuel Equiagaray Ucelay	-	57,578	25,000	82,578
Former directors (*)				
Philippe Camus	624,911	227,685	-	852,596
Rainer Hertrich	624,911	227,685	-	852,596
Eckhard Cordes	10,000	30,708	-	40,708
Pedro Ferreras	16,250	49,901	-	66,151
Jean-René Fourtou	10,000	30,708	-	40,708
Total	**4,908,190**	**4,850,449**	**260,000**	**10,018,639**

(*) *Prorata in accordance with their membership as Board of Directors.*
(**)*Full year remuneration.*
(***) *To be regularized in 2006.*

2004 (in €)	Fixum	Bonus related to 2004	Fees	Total
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
Francois 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**

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

	Number of Options					
	as of 1st Jan. 2005	granted during 2005	exercised during 2005	as of 31st Dec. 2005	exercise price in €	expiry date
Thomas Enders	50,000	-	-	50,000	20.90	8th July 2010
	50,000	-	-	50,000	24.66	12th July 2011
	25,000	-	25,000	-	16.96	8th August 2012
	50,000	-	25,000	25,000	15.65	9th October 2013
	50,000	-	-	50,000	24.32	7th October 2014
	-	135,000	-	135,000	33.91	8th Dec. 2015
Noël Forgeard	110,000	-	67,000	43,000	20.90	8th July 2010
	88,000	-	-	88,000	24.66	12th July 2011
	108,000	-	-	108,000	16.96	8th August 2012
	108,000	-	-	108,000	15.65	9th October 2013
	108,000	-	-	108,000	24.32	7th October 2014
	-	135,000	-	135,000	33.91	8th Dec. 2015
Jean-Paul Gut	50,000	-	50,000	-	20.90	8th July 2010
	50,000	-	50,000	-	24.66	12th July 2011
	50,000	-	-	50,000	16.96	8th August 2012
	50,000	-	-	50,000	15.65	9th October 2013
	50,000	-	-	50,000	24.32	7th October 2014
	-	100,000	-	100,000	33.91	8th Dec. 2015
Hans Peter Ring	10,000	-	-	10,000	20.90	8th July 2010
	28,000	-	-	28,000	24.66	12th July 2011
	37,000	-	-	37,000	16.96	8th August 2012
	50,000	-	-	50,000	15.65	9th October 2013
	50,000	-	-	50,000	24.32	7th October 2014
	-	100,000	-	100,000	33.91	8th Dec. 2015
Total	**1,172,000**	**470,000**	**217,000**	**1,425,000**		

In 2005 no stock options were granted to the former directors Mr. Philippe Camus and Mr. Rainer Hertrich. However, under the terms of their employment contracts a termination package was allocated to them (€2.550 million each, i.e. 18 months of total target income).

As detailed above, the number of outstanding stock options granted to the Executive Board Directors was 1.425 million as at 31st December 2005. To the other members of the Executive Committee, to the Group's senior management and to former members of the Board of Directors, the number of the outstanding stock options amounted to 32.941 million at the same date. For further information, please see note 31 of the consolidated IFRS financial statements.

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

The Executive Board Directors 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 CEOs, the retirement age is 60. This obligation increases 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.

For the Executive Board Directors, the amount of the pension defined benefit obligation, net of accumulated actuarial losses, amounted to €18 million as of 31st December 2005. This obligation has been partly funded and accrued for in the consolidated financial statements for its unfunded portion.

The amounts reported above for the Executive Board Directors are free of benefits in kind they are entitled to, as well as all national social and income tax impacts.

Such executives are entitled to a company car. The value of the company cars of newly appointed Executive Board Directors is as follows:

For Thomas Enders €81,772, for Noël Forgeard €74,085, for Jean-Paul Gut €69,483 and for Hans Peter Ring €100,906.

Mr. Thomas Enders benefits also from a free accommodation in France. The monthly lease amounts to €3,627.

EADS has not provided any loans to / advances to / guarantees on behalf of Directors.

For further information to the remuneration, please see note 32 of the consolidated financial statements.

Supplementary Information

1. Auditors' Report on the Company Financial Statements

Introduction

We have audited the accompanying Company financial statements which are part of the financial statements of European Aeronautic Defence and Space Company EADS N.V., Amsterdam, for the year 2005. These company financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Company 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 company financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Company 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 company financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the Company financial statements give a true and fair view of the financial position of the Company as at 31st December 2005 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore we have established to the extent of our competence that the report of the Board of Directors is consistent with the Company financial statements.

Rotterdam, March 7, 2006	Amsterdam, March 7, 2006
KPMG Accountants N.V.	**Ernst & Young Accountants**
L.A. Blok	M. van Dam

2. Other Supplementary Information

1. 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 €1,676 million as shown in the profit and loss statement for the financial year 2005 is to be added to retained earnings and that a payment of a gross amount of €0.65 per share shall be made to the shareholders from distributable reserves.

2. Subsequent events

For further information please see Note 37 of the consolidated financial statements.

1.3 Statutory Auditors' Fees

Services of Statutory Auditors and Members of their Network rendered to the Group for the financial years 2005, 2004 and 2003

	KPMG Accountants N.V.						Ernst & Young Accountants					
	2005		2004		2003		2005		2004		2003	
	Amount in €K	%	Amount in €K	%	Amount in €K	%	Amount in €K	%	Amount in €K	%	Amount in €K	%
Audit												
Audit process, certification, examination of individual and consolidated accounts	5,533	68.3	5,073	57.3	4,514	65.1	4,923	77.3	4,795	70.0	4,263	64.2
Additional tasks	1,416	17.5	3,048	34.5	2,133	30.7	1,163	18.3	1,747	25.5	1,108	16.7
Sub-total	**6,949**	**85.8**	**8,121**	**91.8**	**6,647**	**95.8**	**6,086**	**95,6**	**6,542**	**95.5**	**5,371**	**80.9**
Other services as relevant												
Legal, tax, employment	958	11.8	729	8.2	294	4.2	281	4.4	294	4.3	1,105	16.7
Internal audit	-	-	-	-	-	-	-	-	-	-	28	0.4
Other (to be specified if > 10% of the fees for the audit)	194	2.4	-	-	-	-	-	-	13	0.2	132	2.0
Sub-total	**1,152**	**14.2**	**729**	**8.2**	**294**	**4.2**	**281**	**4.4**	**307**	**4.5**	**1,265**	**19.1**
Total	**8,101**	**100.0**	**8,850**	**100.0**	**6,941**	**100.0**	**6,367**	**100.0**	**6,849**	**100.0**	**6,636**	**100.0**

1.4 Information Regarding the Statutory Auditors

	Date of First Appointment	Term of Current Office
KPMG Accountants N.V. K.P. Van der Mandelelaan 41-43 3062 MB Rotterdam – The Netherlands Represented by Mr. Leo Blok	10th May 2000	4th May 2006*
Ernst & Young Accountants Drentestraat 20, 1083 HK Amsterdam – The Netherlands Represented by Mr. Martin van Dam	24th July 2002	4th May 2006*

(*) *A resolution will be submitted to the shareholders' General Meeting of EADS called for 4th May 2006, in order to resolve that the Company's auditors for the accounting period being the financial year 2006 shall be Ernst & Young Accountants and KPMG Accountants N.V.*

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

2 Corporate Governance

EADS is a company registered in the Netherlands and listed in France, Germany and Spain. Given the myriad of Corporate Governance regimes applicable to it, EADS applies a set of common Corporate Governance principles and recommendations in order to be in line with the Corporate Governance best practices applicable in these jurisdictions.

In particular and in accordance with Dutch law, the Company applies the provisions of the Dutch Corporate Governance Code (the "**Dutch Code**"), or, if applicable, explains in its annual Board of Directors Report the reasons for non-application of such provisions in accordance with the "apply or explain" principle. Accordingly, in paragraph 4.2 "Dutch Corporate Governance Code" of its Board Report for the 2004 financial year, which was approved by the Annual General Meeting held on 11th May 2005, EADS provided detailed explanations for the non-application of provisions III.2.1, III.3.6, III.4.1(f), III.5.1, III.5.6, III.5.11, III.5.12, III.8.3, III.5.13(a), III.5.13(d) (essentially as a result of EADS being a controlled Company and, therefore, most of the Members of the Board, Audit Committee and Remuneration and Nomination Committee could be designated and possibly be removed by its controlling shareholders), II.2.6, III.7.3, III.7.2, II.1.1, III.3.5, IV.3, IV.2 and IV.1.7 (essentially as a result of EADS being listed on the Frankfurt, Paris and Spanish stock exchanges and endeavouring to strictly comply with the relevant regulations and following the general practices on these markets protecting all its stakeholders). In 2005, EADS' 2004 statement has been modified with respect to provisions II.2.1, II.2.2, II.2.7 (remuneration granted to members of the Board of Directors), II.1.4 (internal control and risk management frameworks) and II.1.6 (ethics alert systems).

EADS' Board of Directors Report is included in the Annual General Meeting Documentation (available on EADS' website at www.eads.com in the section "Corporate Governance"), and the statements therein relating to Corporate Governance (Section 4.2 "Dutch Corporate Governance Code") for the financial years 2004 and 2005 shall be deemed to be incorporated in and form part of this Registration Document.

EADS consequently complies with the Dutch Code since the Company's annual shareholders' meeting approved the section relating to Corporate Governance included in the Board of Directors Report since 2003.

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, *Société de Gestion de Participations Aéronautiques* ("**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 *Société de Gestion de l'Aéronautique, de la Défense et de l'Espace* ("**SOGEADE**"); and
- two independent Directors, one nominated by DaimlerChrysler and one nominated by SOGEADE.

In addition, although from 8th July 2003, *Sociedad Estatal de Participaciones Industriales* ("**SEPI**") no longer has a right to nominate a Director, based upon the proposal of DaimlerChrysler and SOGEADE, the shareholders' meeting of EADS held on 11th May 2005 appointed an additional Spanish Director bringing the total number of Directors to eleven.

Pursuant to the Articles of Association, each member of the Board of Directors held office for a term expiring at the Annual General Meeting of the Company held on 11th May 2005. Such Annual General Meeting reconstituted the Board of Directors for a term of five years ending at the close of the Annual General Meeting which will be held in the year 2010. Members of the Board of Directors will be elected 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;
- 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 BUs;
- 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 2005 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 91%. Topics intensively discussed and operations authorised at these meetings included EADS' strategy, reorganisation topics (such as the reshaping of EADS divisional structure and headquarter organisation), major business issues (such as the A350 industrial launch decision, Airbus future product policy, EADS strategy in defense including European industry consolidation and the acquisition of Atlas Elektronik together with ThyssenKrupp Technologies, the review of the EADS UAV programmes, the co-development of the EC 175 helicopter with China and the review of Sogerma future strategy), the approval of operational plans, budgets, remuneration (including a stock option plan and an employee share ownership plan) and the Group's financial results and forecasts, as well as financial optimisations and the process of risk management and internal controls. 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 multinational leadership structure. In its meeting held on 11th May 2005, Manfred Bischoff and Arnaud Lagardère were re-elected Chairmen and the two Board Committees were reconstituted with the same members as previously. The Board of Directors has also appointed on 25th June 2005 the Chief Executives Officers, Thomas Enders and Noël Forgeard as the two Chief Executive Officers, the President and CEO of Airbus, the Head of the Division Defense and Security Systems, and the Head of Eurocopter as member of the Executive Committee, while confirming the other members of the Executive Committee.

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 2005. Among other matters, the induction package remitted to new Board members after their appointment through the annual General Meeting ("**AGM**").

In addition to the Rules, the work of the Board of Directors is governed by internal directors' guidelines (the "**Directors' Guidelines**") adopted, in a meeting dated 10th December 2004, in light of Corporate Governance best practices. The Directors Guidelines are composed of a Directors' charter (the "**Directors' Charter**") detailing the rights and duties of the members of the Board of Directors, an Audit Committee charter (the "**Audit Committee Charter**") 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.

Mandates of all the members of the Board of Directors expired at the general shareholders' meeting of the Company 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 (designated as Chairmen), Thomas Enders and Noël Forgeard (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.

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 favor 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	63	2005	2010	Chairman of EADS	DaimlerChrysler Delegate for Aerospace
Arnaud Lagardère	45	2005	2010	Chairman of EADS	General Partner and Chief Executive Officer of Lagardère
Thomas Enders	47	2005	2010	Chief Executive Officer of EADS	President of the German Association of the Aerospace Industries-BDLI
Noël Forgeard	59	2005	2010	Chief Executive Officer of EADS	Member of the Board of Directors of Arcelor
Jean-Paul Gut	44	2005	2010	Chief Operating Officer for Marketing, Strategy and Global Development of EADS	Member of the Board of Directors of Arjil Commanditée-Arco
Hans Peter Ring	55	2005	2010	Chief Operating Officer for Finance of EADS	Member of the Supervisory Board (*Aufsichtsrat*) and Shareholder Committee of M+W Zander — D.I.B Facility Management GmbH
Juan Manuel Eguiagaray Ucelay	60	2005	2010	Member of the Board of Directors of EADS	Director of the Service of Studies of the Fundacion Alternativas
Louis Gallois	62	2005	2010	Member of the Board of Directors of EADS	President of SNCF
Rüdiger Grube	54	2005	2010	Member of the Board of Directors of EADS	Member of the Management Board of DaimlerChrysler
François David	64	2005	2010	Member of the Board of Directors of EADS	Chairman and Chief Executive Officer of Coface
Michael Rogowski	67	2005	2010	Member of the Board of Directors of EADS	Chairman of the Supervisory Board of J.M Voith AG.

Nota: *The professional address of all Directors for any matter relating to EADS is Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, The Netherlands.*

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. He was a member of the Board of Management of DaimlerChrysler from 1995 until 15th December 2003, responsible for Aerospace & Industrial Businesses. Prior to his present position with EADS, Dr. Bischoff was first Chief Financial Officer from 1989 and then President and Chief Executive Officer from 1995 to March 2000 of Dasa AG, one of the three EADS founding companies. 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:

Current mandates in addition to those listed in the chart above are set forth below:

- Member of the Supervisory Board of DaimlerChrysler AG ("**DaimlerChrysler**");
- Chairman of the Supervisory Board of Dasa AG;
- Chairman of the Supervisory Board of DCLRH;
- 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 Board of Directors of Nortel Networks Corp. and Nortel Networks Ltd;
- Member of the Board of Directors of Unicredit; and
- Member of the Supervisory Board of Voith AG.

Former mandates for the last five years:

- Chairman of the Supervisory Board of EADS Deutschland GmbH (resigned 7th July 2003);
- Member of the Board of Directors of Mitsubishi Motors Corporation (resigned 15th December 2003);
- Member of the Management Board of DaimlerChrysler (resigned 15th December 2003);
- Chairman of the Supervisory Board of Motoren-und-Turbinen Union ("**MTU**") Aero Engines GmbH (resigned 1st January 2004);
- Member of the Supervisory Board of Lagardère (resigned 10th May 2005); and
- Member of the Supervisory Board of Bayerische Hypo- und Vereinsbank AG (resigned 27th July 2005).

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 S.A.S;
- Chairman and Chief Executive Officer of Lagardère Media (Hachette S.A.);
- Chairman and Chief Executive Officer of Lagardère Capital & Management;
- Chairman of Fondation Jean-Luc Lagardère;
- 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 S.A. 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 Hachette Filipacchi Médias;
- Member of the Supervisory Board of Virgin Stores;
- Member of the Supervisory Board of DaimlerChrysler;
- Member of the Supervisory Board of Le Monde;
- President of the "Association des Amis de Paris Jean Bouin Club Athlétique de la Société Générale ("**C.A.S.G.**"); and
- Member of France China Honorary Committee.

Former mandates for the last five years:

- Member of the Supervisory Board of T. Online International AG;
- Member of the Supervisory Board of LCM ("Lagardère Capital & Management") Partenaires S.A. (resigned December 2001);
- Chairman of Lagardère Active Broadband Finances S.A.S (resigned December 2001);
- Member of the Board of Directors of LCM Expression S.A. (resigned June 2002);
- Member of the Board of Directors of Multithematiques S.A. (resigned December 2002);
- Co-Manager of I.S.-9 (resigned May 2003);
- Manager of Lagardère Active Publicité (SNC) (resigned May 2003);
- Member of the Board of Directors of the Society d'Agences et de Diffusion S.A. (resigned June 2003);
- Manager of the Nouvelles Messagerie de la Presse Parisienne - N.M.P.P. SARL (resigned July 2003);
- Member of the Board of Directors of Canalsatellite S.A. (resigned December 2003);
- Member of the Board of Directors of Lagardère-Sociétés S.A.S (resigned December 2003);
- Member of the Board of Directors of the Editions P. Amaury S.A. (resigned December 2003);
- Chairman and Chief Executive Officer of Lagardère Images S.A.S (resigned October 2004);
- Chairman and Chief Executive Officer of Lagardère Thematiques S.A. (resigned November 2004);
- Manager of Lagardère Elevage (resigned March 2005);
- Deputy-Chairman of the Supervisory Board of Banque Arjil & Cie (resigned April 2005);
- President of the "*Club des enterprises Paris 2012*" (resigned January 2006); and
- Member of the Board of Directors of Fimalac (resigned January 2006).

Thomas Enders

Mr. Enders joined MBB ("**Messerschmitt-Boelkow-Blohm**") / 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 from 2000, he was the Head of Defence and Security Systems Division. In June 2005 he was appointed Chief Executive Officer of EADS. Mr. Enders holds degrees from the University of Bonn and UCLA, California.

Current mandates in addition to those listed in the chart above are set forth below:

- Member of the Board of Directors of EADS Participations B.V. and Chief Executive Officer of EADS Participations B.V.;

- Chairman of the Supervisory Board of EADS Deutschland GmbH;
- Member of the Shareholders Committee of Airbus S.A.S;
- Chairman of the Supervisory Committee of Eurocopter S.A.S;
- Member of the Board of Directors of EADS North America Inc.;
- Chairman of the Supervisory Board of Dornier GmbH;
- President of AeroSpace and Defence Industries Association of Europe ("**ASD**");
- Member of the Board of Directors of Bundesverband der Deutschen Industrie ("**BDI**");
- President of Atlantikbrücke;
- Member of the Supervisory Board of Deutsche BP;
- Member of the Board of Directors of Deutsche Gesellschaft für Auswärtige Politik ("**DGAP**"); and
- Member of the Board of Directors of Stichting Administratiekantoor EADS (the "**Foundation**").

Former mandates for the last five years:

- Chairman of the Supervisory Board of DADC Luft und Raumfahrt Beteiligungs AG ("**DADC**") (resigned October 2005); and
- Member of the Supervisory Board of Industrieanlagen-Betriebsgesellschaft mbH ("**IABG**") (resigned December 2005).

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. In June 2005 he was appointed Chief Executive Officer of EADS. He graduated from the *École Polytechnique* and the *École des Mines* in Paris.

Current mandates in addition to those listed in the chart above are set forth below:

- Member of the Board of Directors of EADS Participations B.V. and Chief Executive Officer of EADS Participations B.V;
- Chairman of the Shareholders Committee of Airbus S.A.S;
- President and Member of the Board of Directors of EADS France;
- Member of the Board of Directors of Schneider Electric;
- Member of the Board of Directors of Dassault Aviation;
- Member of the Board of Directors of Arcelor;
- Member of the Board of Directors of France Galop; and
- Member of the Board of Directors of École Polytechnique.

Former mandates for the last five years:

- Member of the Board of Directors of International Metal Service ("**IMS**") S.A. (resigned in 2003);
- Chairman and Chief Executive Officer of Airbus Holding S.A. (resigned in 2005);
- Chairman of the Board of Directors of Airbus France (resigned in 2005);
- Chairman of the Board of Directors of Airbus España, SL (resigned in 2005);
- Chairman of the Supervisory Board of Airbus Deutschland GmbH (resigned in 2005);
- Chairman of the Board of Directors of Airbus Military, SL (resigned in 2005);
- Member of the Board of Directors of Airbus U.K. Ltd (resigned in 2005); and
- Member of the Board of Directors of EADS CASA (resigned in 2005).

Jean-Paul Gut

Since 1983, Mr. Gut has held various executive positions in the field of export and international operations for Matra Defense, Matra Defense Espace and the Lagardère Group. In 1998, Mr. Gut integrated the Lagardère Group Management Board as responsible for International Operations and the High Technology sector. At the creation of EADS, in 2000, he was appointed Head of EADS International and in 2005 Chief Operating Officer for Marketing, Strategy and International. He graduated from the *Institut d'Études Politiques de Paris* with a Master's degree in Economics.

Current mandates in addition to those listed in the chart above are set forth below:

- Member of the Shareholders Committee of Airbus S.A.S;
- Member of the Board of Directors of Dassault Aviation;
- Member of the Board of Directors of EADS CASA;
- Member of the Board of Directors of EADS North America Inc;
- Director of GIE AMLI;
- Representative of MBDA France as Member of the Board of Directors of Eurotradia International (S.A.); and
- Member of the Supervisory Board of Eurocopter (S.A.S).

Former mandates for the last five years:

None.

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 and subsequently 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. 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 and Chief Operating Officer for Finance in 2005. 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 S.A.S;
- Member of the Board of Directors of EADS Space B.V.;
- Member of the Supervisory Board of Eurocopter S.A.S;
- Member of the Supervisory Board of Eurocopter Holding S.A.S;
- Member of the Board of Directors of EADS CASA;
- Member of the Board of Directors of EADS North America Inc.;
- EADS' Representative at the ATR assembly of members;
- Member of the Advisory Board of Deutsche Bank (Region Munich); and
- Member of the "Wirtschaftsbeirat" of the BayernLB.

Former mandates for the last five years:

None.

Juan Manuel Eguiagaray Ucelay

Mr. Juan Manuel Eguiagaray Ucelay is Associate Professor at Carlos III University in Madrid, teaching Macroeconomics and Applied Economics and he is also Director of Studies at the think tank Fundación Alternativas. Between 1970 and 1982 he taught economics at Deusto University in Bilbao. Since the 1970's he held various political mandates in Spain; amongst others he was Minister for Public Administration (1991-1993) and Minister for Industry and Energy (1993-1996). He resigned from Parliament in 2001. Mr. Eguiagaray Ucelay holds a degree in Economics as well as in Law by Deusto University and a Ph.D. degree by the same University.

Current mandates in addition to those listed in the chart above are set forth below:

- Associate Professor of Macroeconomics at the University of Carlos III in Madrid;
- President of Solidaridad Internacional (NGO);
- Economic Adviser of Arco Valoraciones S.A.;
- Member of the Council Adviser of Creation, Advising and Development (Creade), S.L.; and
- Member of the Council Adviser of the Foundation Group EP.

Former mandates for the last five years:

- Member of the Board of Directors of Promek S.L. (resigned 6th June 2000); and
- Member of the Advisory Board of Futurspace S.A. (resigned 05th July 2004).

Louis Gallois

Mr. Louis Gallois has been Chairman of *Société Nationale des Chemins de Fer* ("**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 *Société Nationale d'Études et de Constructions de Moteurs d'Avions* ("**SNECMA**") and subsequently, in 1992 Chairman and Chief Executive Officer of Aerospatiale. He graduated from the *École des Hautes Études Commerciales* in Economic sciences and is an alumnus of the *École Nationale d'Administration.*

Current mandates in addition to those listed in the chart above are set forth below:

- Member of the Board of Directors of *École Centrale des Arts et Manufactures*; and
- President of the Fondation Villette-Entreprises.

Former mandates for the last five years:

- Member of the Board of Directors of Thales (resigned 30th June 2005).

Rüdiger Grube

Dr. Rüdiger Grube is member of the Board of Management of DaimlerChrysler in charge of corporate development since 2002 and additionally profit and loss responsible for North East Asia (incl. 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. 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;
- Vice Chairman of the Board of Directors of Beijing Benz DaimlerChrysler Automotive (BBDC-A);
- Member of the Board of Directors of McLaren Group Ltd;
- Member of the Supervisory Board of DaimlerChrysler Financial Services AG;
- Member of the Advisory Board of DaimlerChrysler Fleetboard;
- Member of the Advisory Board of DaimlerChrysler Aviation; and
- Member of the Supervisory Board of "Hamburg Port Authority" ("**HPA GmbH**").

Former mandates for the last five years:

- Member of the Board of Directors of the Hyundai Motor Company (resigned 13th May 2004); and
- Member of the Board of Directors of the Mitsubishi Motors Company (resigned 24th November 2005).

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 Board of Directors of Coface Services;
- Chairman of the Supervisory Board of AK Coface (*Allgemeine Kreditversicherung Aktiengesellschaft Coface*) (Germany);
- Member of the Board of Directors of Vinci;
- Member of the Board of Directors of the association Coface Trade Aid;
- Chairman of Coface ORT;
- Chairman of La Librairie Electronique (LLE);
- Chairman of Centre d'études financières;
- Chairman of Or Informatique; and
- Censor in Rexel.

Former mandates for the last five years:

- Member of the Board of Directors of Rexel (resigned in 2005).

Michael Rogowski

Dr. Michael Rogowski has been Chairman of the Supervisory Board of Voith AG since 2000 and was also the President of the Association of German Industry from 2000 to 2004. Dr. Michael Rogowski joined 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 Voith GmbH in 1986 and then Voith AG in 1997. He studied economical engineering and earned a doctorate at the University of Karlsruhe 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**");
- Member of the Supervisory Board of Talanx AG / HDI Versicherung;
- Member of the Supervisory Board of IKB Deutsche Industrie-Bank AG;
- Member of Shareholder's Committee of Freudenberg & Co.; and
- Member of the Supervisory Board of Carl Zeiss AG

Former mandates for the last five years:

- President of the Federation of German Industries, BDI (resigned 31st December 2004);
- Member of the Supervisory Board of KSB AG (resigned 30th April 2005);
- Member of the Supervisory Board of *KfW Kreditanstalt für Wiederaufbau* (resigned 31st May 2005);
- Member of the Supervisory Board of Deutsche Messe AG (resigned 30th June 2005); and
- Vice President of the Federation of German Industries, BDI (resigned 31st December 2005).

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.

Prior Offences and Family Ties

To the Company's knowledge, none of the Directors (in either their individual capacity or as director or senior manager of any of the entities listed above) has been convicted in relation to fraudulent offences, been the subject of any bankruptcy, receivership or liquidation, nor been the subject of any official public incrimination and / or sanction by a statutory or regulatory authority, nor been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or conduct of affairs of any company, during at least the last five years. As of the date of this document, there are no family ties among any of the Directors.

Assessment of the Performance of the Board of Directors

Last year's self-evaluation was conducted as from December 2005 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 on the results at the following Board of Directors meetings.

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 self-assessment concluded that the overall performance of the Board of Directors is very satisfactory.

Since the last self-assessment in 2004, which had shown positive results already, further progress has been made in the meantime by implementing the previously decided improvement measures, such as improved transparency on EADS Corporate Governance for shareholders. Also, the meeting attendance for Board of Directors and Remuneration & Nomination Committee meetings has further increased in 2005 compared to the previous year.

Continuous improvement and effectiveness of governance and management of the Group will remain a prime 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 three times during 2005 and had one written consultation, with a 94% attendance rate, to review the 2004 results as well as the first half-year results for 2005 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.

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 BUs 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 Thomas Enders, Noël Forgeard, Rüdiger Grube and Louis Gallois.

The Remuneration and Nomination Committee meets twice a year, or more frequently according to requirements. It met five times during 2005, with a 92% average attendance rate. On top of making recommendations to the Board of Directors for major appointments within the Group, the Remuneration and Nomination Committee reviewed the compensation policy (including pension schemes), the bonus payments for 2004, the stock option plan and the employee share ownership plan for 2005.

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 Functions and Divisions of the Group. The Executive Committee met nine times during 2005.

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 BUs.

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.

On 25th June 2005, the Board of Directors appointed the new Executive Committee which is led by the two Chief Executive Officers.

Composition of the Executive Committee

Name	Age	Term started	Term expires	Principal Occupation
Thomas Enders	47	2005	2010	Chief Executive Officer
Noël Forgeard	59	2005	2010	Chief Executive Officer
Jean-Paul Gut	44	2005	2010	Chief Operating Officer for Marketing, Strategy and Global Development
Hans Peter Ring	55	2002	2007	Chief Operating Officer for Finance
François Auque	49	2005	2010	Chief Executive Officer of Space Division
Fabrice Brégier	44	2005	2010	Head of EADS Eurocopter Division
Ralph D Crosby Jr.	58	2002	2007	Chairman and Chief Executive Officer of EADS North America
Francisco Fernández Sáinz	60	2002	2007	Head of Military Transport Aircraft Division
Gustav Humbert	56	2005	2010	President and Chief Executive Officer of Airbus
Jussi Itävuori	50	2002	2007	Head of Human Resources
Stefan Zoller	48	2005	2010	Head of Defence and Security Systems Division

Nota: *The professional address of all members of the Executive Committee for any matter relating to EADS is Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, The Netherlands.*

Thomas Enders, Chief Executive Officer of EADS

See "2.1.1 Board of Directors, Chairmen and Chief Executive Officers — Curriculum Vitae and other Mandates and Duties Performed in any Company by the Members of the Board of Directors".

Noël Forgeard, Chief Executive Officer of EADS

See "2.1.1 Board of Directors, Chairmen and Chief Executive Officers — Curriculum Vitae and other Mandates and Duties Performed in any Company by the Members of the Board of Directors".

Jean-Paul Gut, Chief Operating Officer for Marketing, Strategy and Global Development

See "2.1.1 Board of Directors, Chairmen and Chief Executive Officers — Curriculum Vitae and other Mandates and Duties Performed in any Company by the Members of the Board of Directors".

Hans Peter Ring, Chief Operating Officer for Finance

See "2.1.1 Board of Directors, Chairmen and Chief Executive Officers — Curriculum Vitae and other Mandates and Duties Performed in any Company by 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 held various top management functions within Aerospatiale Matra. Since 2000, he is Chief Executive Officer of the EADS Space Division. Mr. Auque graduated from the *École des Hautes Études Commerciales*, from the *École Nationale d'Administration*, and from the *Institut d'Études Politiques de Paris*.

Fabrice Brégier, Head of EADS Eurocopter Division

Mr. Brégier joined Matra Défense in 1993 as Chairman of the Apache MAW and Eurodrone GIEs. In 1996, he was appointed Director for the Stand-Off activities of Matra BAe Dynamics before becoming CEO of MBD in 1998 and CEO of MBDA in 2001. He became President and CEO of Eurocopter in April 2003. In June 2005 he was appointed Head of the Eurocopter Division and member of the Executive Committee.

Ralph D. Crosby Jr., Chairman and Chief Executive Officer of EADS North America

Mr. Crosby has been Chairman and CEO of EADS North America since 2002. Previously, he established and was President of the Integrated Systems Sector at Northrop Grumman Corporation after having been Corporate Vice President and General Manager of the company's Commercial Aircraft Division and of the B-2 Division. Mr. Crosby holds degrees from the U.S. Military Academy, from the Graduate Institute of International Studies in Geneva, and from the Harvard University.

Francisco Fernández Sáinz, Head of Military Transport Aircraft Division

Mr. Fernández Sáinz joined CASA in 1971 as a Stress Engineer. Between 1975 and 2002 he held various positions such as Product Engineering Manager, Project Manager, Engineering Development Director of the Technical Directorate, Vice President of Engineering and Executive Vice President Programs, and finally as Airbus España General Manager. Since 2002, he is Head of Military Transport Aircraft. Mr. Fernández Sáinz holds an MBA from ICADE and is a Senior Aeronautical Engineer.

Gustav Humbert, President and Chief Executive Officer of Airbus

Mr. Humbert joined MBB in 1980. Before becoming President and Chief Executive Officer of Daimler Benz Aerospace Airbus GmbH in 1994, he was member of the Dasa AG Management Board responsible for the Commercial Aircraft Division. He was nominated Airbus Chief Operating Officer in 2000 and President and Chief Executive Officer of Airbus in 2005. Mr. Humbert holds an engineering degree and a PhD from the Hanover Technical University.

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 the Executive Committee of KONE Elevators. In 1995, he was appointed member of the Executive Committee and Head of Human Resources of KONE Corporation. Mr. Itävuori graduated from the Vaasa School of Economics, Finland and served in the Airforce as pilot.

Stefan Zoller, Head of Defence and Security Systems Division

Dr. Zoller joined Dasa in 1996 as Chief of Staff of the President and CEO of the company. Previously, he held various management positions within DaimlerChrysler, Dornier and Senstar / Canada. Since 2000, he has held top management positions within EADS' defence business and was appointed Head of the Defence & Security Systems Division in 2005. Dr. Zoller graduated from the University Tübingen and holds a PhD in company law.

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 from the Netherlands, France, Germany and Spain. Recognizing that developments in the multi-jurisdictional legal and regulatory provisions relevant to EADS required 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;
- identify weaknesses in the Group's existing IC and RM procedures and propose improvements thereto; and
- enable EADS to manage and minimize business and control risks throughout the Group.

Achievements in 2005

Building on the results of the comprehensive IC and RM review and evaluation process commenced in 2004, EADS critically assessed during 2005 the implementation status and quality of the integrated Group-wide IC and RM systems. An independent review process was launched to provide reasonable assurance regarding the effectiveness of the IC and RM systems in place. Additional quality and efficiency gains have been achieved.

In order to further enhance the quality of the IC and RM systems, a number of actions have been launched. Specific training sessions according to the "train the trainer" principle have been carried out to further train the IC coordinators who, in a second step, transferred their knowledge to the process owners in the BUs and headquarters functions. In addition, "lessons learned" process workshops took place, utilising the independent review information. These workshops provided process owners / coordinators with a platform for information on the independent review findings in other BUs as well as for the exchange of their specific experiences. The training sessions and the "lessons learned" workshop information were instruments to further coach and support the process owners and to secure the high quality standard of the yearly recurring self-assessment. The self-assessment and the independent review results were subsequently the subject of EADS' top management's discussions. Based on the bottom-up principle, the BU management boards reported the status quo of their IC and RM systems to the chief executive officers and the chief financial officers of the respective Divisions (Airbus, DS, MTA, Eurocopter, Space), who again reported to the EADS chief executive officers (the "**CEOs**") and the EADS chief financial officer (the "**CFO**").

Additionally, in order to maximize efficiency in the area of control design assessment, the "key control" principle was designed. A "key control" is a control that is critical to a specific control objective covering the related risk. Key controls can often be identified in areas such as authorization controls, exception reports, configuration controls, segregation of duties, system access, conversion controls, key performance indicators, management reviews and reconciliations.

Set out further below is a description of the integrated Group-wide IC and RM systems, comprising the developments during 2005.

Limitation

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.

Interaction with the EADS Management Process

The Board of Directors has overall responsibility for the Group's IC and RM environment. EADS' CEOs and EADS' CFO 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 and their respective BUs, 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, subject to audit.

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 "Risk Factors" 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 developments in Corporate Governance legislation, EADS harmonized its existing RM processes at the Group level further to ensure that risks are continuously and consistently (i) identified, (ii) analysed, (iii) controlled, (iv) monitored and (v) reported.

Through the RM procedures, 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. This information is used for decision making throughout the relevant EADS management processes.

In addition, 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.

2.1.5.3 Internal Control Framework

EADS maintains an **integrated Group-wide IC framework** 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 are being effectively managed, based on a variety of IC procedures. The framework embodies the systems of policies and procedures within EADS designed to:

- ensure compliance with laws and regulations applicable to the Group, as well as with internal Group policies;
- enable the Group to identify and respond to significant operational, financial and compliance risks throughout EADS; and
- ensure the quality of financial reporting, including design and implementation of processes to generate a flow of timely, relevant and reliable information.

Certain subsidiaries, such as Airbus, and joint ventures, such as MBDA, operate IC procedures that are customized to their specific businesses – these procedures conform to the overall EADS IC framework. Conformity 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, respective audit committees).

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:

- codes of conduct (e.g., EADS Code of Ethics, Corporate Social Responsibility policies (see "Part 2 / Chapter 2 Corporate Social Responsibility"));
- 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 Organizations of the Treadway Commission (COSO), as well as industry-specific standards as defined by the International Standards Organization (ISO).

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 formalized risk and control self-assessment mechanisms, to be applied by each business process owner on a regular basis. Based on these mechanisms, management of each Division, BU and headquarters function prepares formal statements as to the adequacy and effectiveness of the IC systems within their scope of responsibility.

The analysis and statements made by Divisions, BUs, and headquarters functions are discussed in depth between EADS CEOs and CFO and the respective Division and BU CEOs and CFOs or the headquarters functions heads. These discussions serve to prioritize potential issues at EADS level, define and commit appropriate actions if needed, and draw conclusions for the overall EADS IC and RM report.

The initial risk-based review of the effectiveness of the Group's IC system started in 2005 and will continue throughout 2006 with the support of external auditors.

EADS' ongoing monitoring activities include the following:

- Scoping: The scoping process delivers the foundation for all following IC process steps by identifying the significant business processes and sub-processes at Legal Entity ("**LE**") level.
- Self-assessment: On the basis of the business processes in scope, the IC templates have to be completed by assessing the design (are the existing controls sufficient for meeting the control objective?) and operating effectiveness (are the controls working as intended?) of the controls in place.
- Evaluation and prioritization: Control deficiencies identified during the self-assessment process need to be evaluated and prioritized into minor deficiencies, significant deficiencies and material weaknesses.
- Remediation and monitoring: For each identified deficiency, a remediation action needs to be defined and implemented. The progress is monitored by the BUs and reported to EADS headquarters.
- Re-testing: To verify the successful implementation of the remediation actions, the remediated controls needs to be re-assessed.
- Sub-representation and management discussion: Once every year, identified significant deficiencies and material weaknesses have to be reported in sub-representation letters, providing assurance of management assessment of the quality of the IC systems and of the IC risk exposure.
- Independent review: Each year, corporate audit provides an independent review of the status of the IC systems in selected Divisions and BUs.
- Training: Relevant personnel (e.g., IC Coordinators, Process Owners) receive training in order to be informed of new / changed laws and regulations regarding IC and to be updated on relevant process steps and corresponding binding activities within the IC systems.

Management Sign-Off Process

Since the 2004 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 as well as the management discussions mentioned above.

2.1.5.4 Business Processes Covered by Internal Control Framework

Based on EADS' activities, seventeen high-level business processes have been identified within EADS. They are 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, legal and insurance) and management processes (internal audit, controlling and management controls). 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 [(1)].

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 organizational 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**"). 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 comply with IFRS, the Group-wide applied accounting principle. 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.

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 mergers and acquisitions ("**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.

(1) *This report is therfore not an exhaustive description of all the Group's IC procedures.*

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 EADS 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. See "1.1.8 Hedging Activities".

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, consisting of Airbus and EADS central treasury department representatives, monitors foreign currency exposure and decides on the detailed implementation of the Airbus hedging policy. Actual hedging transactions are executed by the EADS central treasury department. See "1.1.7.4 Sales Financing" and "Notes to Consolidated Financial Statements (IFRS) — Note 22: Financial Liabilities".

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.

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 within the defined threshold categories require approval by the CFO. Contracts that are deemed "high-risk" must be submitted to a standing Commercial Committee (with the COO for Finance and the COO of Marketing, Strategy and Global Development 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 and the Airbus Shareholders' Agreement. 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.

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' IC and RM Systems

Building on the results of the comprehensive IC and RM review and evaluation process carried out in 2005, EADS will critically assess the results over the course of 2006. As a result of the ongoing monitoring activities of the IC and RM systems' effectiveness, such as the self-assessments and the Internal Audit's review, further enhancements and modifications to the IC and RM systems are expected throughout 2006. These enhancements and modifications are intended to ensure 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, 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 2005 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 Company Financial Statements — Note 9: 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. The employment contracts for Executive Directors are concluded for an indefinite term with an indemnity of up to a maximum of 24 months of their target income. The maximum 24 months indemnity can be reduced prorata depending on the age of retirement.

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 2005 an accumulated total target compensation on a full year basis of €10,654,987. This target compensation is calculated *pro rata* for the Executive Directors present in the Company on 31 December 2005. This compensation is divided for the Chief Executive Officers into a 45% fixed part and a 55% variable part and for the other Executive Directors 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 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 former Chief Executive Officers of the Company, Mr. Philippe Camus and Mr. Rainer Hertrich, during the year 2005 was €1,948,941 each. Under the terms of their employment contracts, the former CEOs were also entitled to a termination package of €2,550,000 each (i.e., 18 months of total target income).

The total compensation paid by EADS and all its Group companies to the two new Chief Executive Officers of the Company, Mr. Thomas Enders and Mr. Noël Forgeard, during the year 2005 was €450,000 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 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 2005, 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”. Other than the relationships between the Company and its principal shareholders described in Part 2 / 3.3.2, to the Company’s knowledge, there are no potential conflicts of interest relative to the Company between the duties of the Directors and their respective private interests or other duties.

As indicated in “Part 2 / 3.1.3.1 Ongoing Disclosure Obligations”, according to Article 35 of the Spanish Securities Market Act 24 / 1988, of 28th July 1988, as amended (the “**Spanish Securities Act**”) and Order EHA / 3050 / 2004 of 15th September, the Company must provide detailed information, including, without limitation, the number and amount of the transactions, in relation to every transaction carried out with any related party in the half-yearly information which the Company is required to file with the *Comisión Nacional del Mercado de Valores* (the “**CNMV**”) and the Spanish Stock Exchanges, without prejudice to information to be included in the annual Corporate Governance report to be filed with the CNMV on an annual basis (the “**Annual Corporate Governance report**” pursuant to the Ministry of Economy Order

3722 / 2003 dated 26th December 2003 (the “**Ministerial Order**”)).

Pursuant to the Spanish Securities Act, the Company has to provide detailed information about transactions carried out with (i) directors which are outside the ordinary activity of the Company or which are not in market conditions; and (ii) any related party which are material due to their amount or for an adequate understanding of the public economic information.

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 "2.3.3 Options Granted to Employees") and employees were offered shares at favourable conditions at the time of the public offering and listing of EADS (see "2.3.2 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.

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 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, 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 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, 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.

In June 2005, 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 2,025,000 shares of a nominal value of €1 each.

The employee offering (*note d'opération* approved by the AMF on 4th May 2005 under number 05-353) was given only to employees who:

- had at least three months' seniority;
- were employed by (i) EADS or (ii) one of its subsidiaries or (iii) companies in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered offices are located in Germany, Australia, Belgium, Canada, Spain, the United States, Finland, France, the United Kingdom, Ireland, Mexico, the Netherlands, Poland 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 €18.86 per share;
- shares subscribed for by qualifying employees directly were offered for a price of €18.86 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 1,938,309 shares were subscribed for in the employee offering. Shares were delivered on 29th July 2005.

2.3.3 Options Granted to Employees

At its 26th May 2000, 20th October 2000, 12th July 2001, 9th August 2002, 10th October 2003, 8th October 2004 and 9th December 2005 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, 6th May 2003 and 11th May 2005 approved the granting of stock options for subscription of shares in the Company. The principal characteristics of these options as at 31st December 2005 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	2,440,381	104,350
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	2,179,019	119,650

	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	5,288,723	4,359,189
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	2,069,027	2,672,036

	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	6,493,005	7,699,060
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	885,125	0

	Seventh tranche
Date of General Meeting	11th May 2005
Date of Board meeting	9th December 2005
Number of options that were granted	7,981,760
Number of options outstanding	7,981,760
Of which: shares that may be subscribed by:	
– Mr. Thomas Enders*	135,000
– Mr. Noël Forgeard*	135,000
– the 10 employees having being granted the highest number of options during the year 2005 (seventh tranche)	940,000
Total number of eligible beneficiaries	Approximately 1,608
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 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
Exercise price	€33.91
Number of options exercised	0

(*) *For more information in respect of options granted to the Executive Directors, see "Notes to the Company Financial Statements — Note 9: Remuneration".*

For information in respect of options cancelled and exercised during the year, see “Notes to the Consolidated Financial Statements (IFRS) — Note 31: Share-based Payment”.

For information on the transactions carried out by the members of the Board of Directors and the Executive Committee see EADS’s website and / or the relevant stock exchange authorities’ website.

3 Outlook

3.1 2006 Financial Outlook

Revenues

The anticipated progression of Airbus deliveries in 2006, and higher volume from its combined defence businesses, are expected to result in increased 2006 revenues as compared to 2005.

EBIT*

EADS anticipates that in 2006 it will experience higher Airbus sales volume and that improvements will be made in operational efficiencies across all of its business divisions, despite expected higher research and development costs and the continuing U.S. Dollar headwind arising from the maturity of less attractive hedges. Consequently, EADS expects that its EBIT* in the 2006 financial year will increase as compared to its EBIT* in 2005.

Cash

EADS' cash flow generation was strong in 2005. Despite the planned build up of inventories related to the aircraft delivery ramp-up (particularly for the A380) in 2006, EADS' believes that Free Cash Flow before Customer Financing will remain robust in 2006.

EPS

Based on an anticipated average of shares for 2006 and on a U.S. Dollar 2006 year-end closing rate similar to the closing rate in 2005, EADS believes that its EPS in the 2006 financial year will increase as compared to 2005.

3.2 2006 Calendar of Financial Communication

2005 Annual Results Release: 8th March 2006

Annual General Meeting: 4th May 2006

First Quarter 2006 Results Release: 16th May 2006

First Half 2006 Results Release: 27th July 2006

Global Investor Forum: 21st and 22nd September 2006

Third Quarter 2006 Results Release: 8th November 2006

Designed & Produced by: Labrador 00 33 1 53 06 30 80