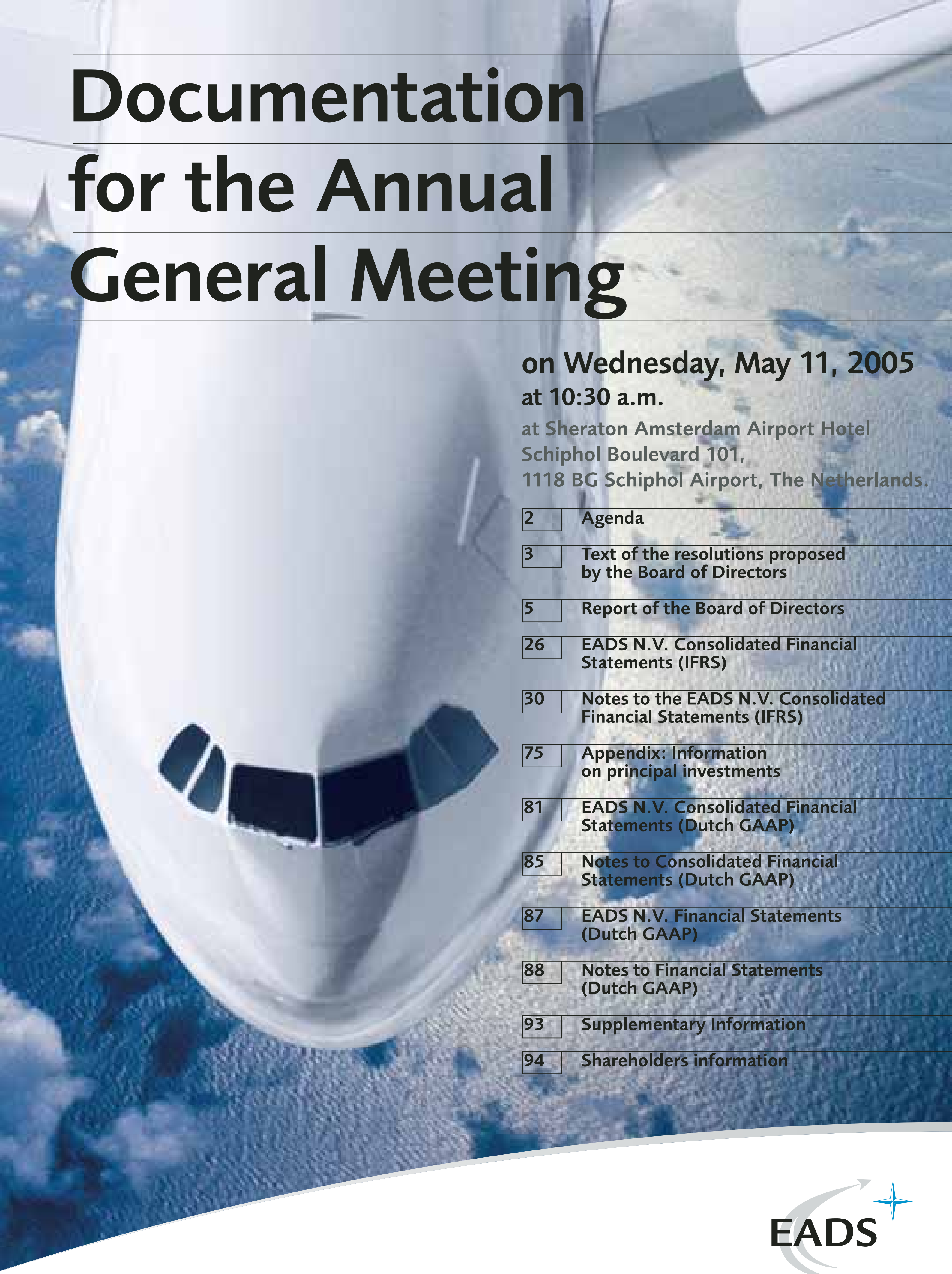

Documentation for the Annual General Meeting

on Wednesday, May 11, 2005

at 10:30 a.m.

at Sheraton Amsterdam Airport Hotel
Schiphol Boulevard 101,
1118 BG Schiphol Airport, The Netherlands.

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EADS

The step beyond

Agenda

1. Expiration of mandates and appointment of Messrs. Manfred Bischoff, Arnaud Lagardère, Thomas Enders, Noël Forgeard, Jean-Paul Gut, Hans Peter Ring, Juan Manuel Eguiagaray Ucelay, Louis Gallois, Rüdiger Grube, François David and Michael Rogowski as members of the Board of Directors;

2. Approval of the report of the Board of Directors including the:
   - (i) chapter on Corporate Governance,
   - (ii) policy on dividends,
   - (iii) proposed remuneration policy including arrangements for the grant of stock options and rights to subscribe for shares for the members of the Board of Directors;

3. Adoption of the audited statutory accounts for the financial year 2004;

4. Approval of the result allocation, distribution and payment date;

5. Release from liability of the members of the Board of Directors;

6. Appointment of the auditors for the financial year 2005;

7. Amendment of Article 23.3 of the Company's Articles of Association;

8. Delegation to the Board of Directors of powers to issue shares and to set aside preferential subscription rights of existing shareholders;

9. Cancellation of shares repurchased by the Company;

10. Renewal of the authorisation for the Board of Directors to repurchase shares of the Company.

Text of the resolutions proposed by the Board of Directors

1st Resolution

Expiration of mandates and appointment of Messrs. Manfred Bischoff, Arnaud Lagardère, Thomas Enders, Noël Forgeard, Jean-Paul Gut, Hans Peter Ring, Juan Manuel Eguiagaray Ucelay, Louis Gallois, Rüdiger Grube, François David, Michael Rogowski as member of the Board of Directors

RESOLVED THAT effective the end of this Annual General Meeting, the Board of Directors be reconstituted to replace the Board of Directors appointed for a period expiring at the end of this Annual General Meeting to consist of the following persons as members of the Board of Directors for a term of five (5) years, ending at the close of the Annual General Meeting which shall be held in the year 2010:

- Dr. Manfred Bischoff;
- Mr. Arnaud Lagardère;
- Dr. Thomas Enders;
- Mr. Noël Forgeard;
- Mr. Jean-Paul Gut;
- Mr. Hans Peter Ring;
- Mr. Juan Manuel Eguiagaray Ucelay;
- Mr. Louis Gallois;
- Dr. Rüdiger Grube;
- Mr. François David;
- Dr. Michael Rogowski.

2nd Resolution

Approval of the report of the Board of Directors

RESOLVED THAT the Report of the Board of Directors, as submitted to the Annual General Meeting, including the chapter on Corporate Governance, the policy on dividends and proposed remuneration policy including arrangements for the grant of stock options and rights to subscribe for shares for the Board of Directors, be and hereby is accepted and approved.

3rd Resolution

Adoption of the audited statutory accounts for the financial year 2004

RESOLVED THAT the audited Dutch statutory accounts for the accounting period from January 1, 2004 to December 31, 2004, as submitted to the Annual General Meeting by the Board of Directors, be and hereby are adopted.

4th Resolution

Approval of the result allocation, distribution and payment date

RESOLVED THAT the net profit of € 487 million, as shown in the audited Dutch statutory profit and loss statement for the financial year 2004, shall be added to retained earnings and that a payment of a gross amount of € 0.50 per share shall be made to the shareholders from distributable reserves on June 8, 2005.

5th Resolution

Release from liability of the members of the Board of Directors

RESOLVED THAT the members of the Board of Directors be and hereby are granted a release from liability for the performance of their duties during and with respect to the financial year 2004, to the extent that their activity has been reflected in the audited annual accounts for the financial year 2004 or in the Report of the Board of Directors.

6th Resolution

Appointment of the auditors for the financial year 2005

RESOLVED THAT the Company's auditors for the accounting period being the financial year 2005 shall be Ernst & Young Accountants whose registered office is at Drentestraat 20, 1083 HK Amsterdam, The Netherlands, and KPMG Accountants N.V., whose registered office is at K.P. van der Mandelelaan 41-43, 3062 MB Rotterdam, The Netherlands.

7th Resolution

Amendment of Article 23.3 of the Company's Articles of Association

RESOLVED THAT Article 23, paragraph 3 of the Company's Articles of Association shall be amended to reflect changes of Dutch law to read in translation as follows: "*The Board of Directors shall announce the date of the annual meeting of shareholders at least two months before the meeting. Requests made by one or more shareholders collectively representing at least one percent (1%) of the issued share capital or collectively representing a market value, determined on the basis of the price per share at which the shares are publicly traded, of fifty million euro (€ 50,000,000.00) or such other minimum amount as shall, from time to time, be determined by Government Decree (Algemene Maatregel van Bestuur), to put items on the agenda for the annual general meeting of shareholders, shall be effected by the Board of Directors, if such a request to the Board of Directors has been made at least six (6) weeks before the meeting and if there are no objections because of important company's interest(s), which in the judgment of the Board of Directors should prevail above putting an item on the agenda*".*

8th Resolution

Delegation to the Board of Directors of powers to issue shares and to set aside preferential subscription rights of existing shareholders

RESOLVED THAT in accordance with the Articles of Association, the Board of Directors be and hereby is designated, subject to revocation by the General Meeting, to have powers to issue shares of the Company which are part of the Company's authorized share capital provided that such powers shall be limited to 1 % of the Company's authorised capital from time to time and to have powers to limit or to exclude preferential subscription rights, in both cases for a period expiring at the Annual General Meeting to be held in 2006. Such powers include the approval of stock option plans and employee share ownership plans which may include the granting of rights to subscribe for shares which can be exercised at such time as may be specified in or pursuant to such plans.

9th Resolution

Cancellation of shares repurchased by the Company

RESOLVED THAT the number of shares in the Company held by the Company, up to a maximum of 1,336,358 shares, be cancelled and both the Board of Directors and the Chief Executive Officers be and hereby are authorised, with powers of substitution, to implement this resolution in accordance with Dutch law.

10th Resolution

Renewal of the authorisation for the Board of Directors to repurchase shares of the Company

RESOLVED THAT the Board of Directors be and hereby is authorised, for a new period of 18 months from the date of this Annual General Meeting, 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 and at a price not less than the nominal value and not more than the higher of the price of the last independent trade and the highest current independent bid on the trading venues of the regulated market of the country in which the purchase is carried out. This authorisation supersedes and replaces the authorisation given by the Annual General Meeting of May 6, 2004 in its ninth resolution.

* *In the original Dutch language: "De Raad van Bestuur zal de datum van de jaarlijkse algemene vergadering van aandeelhouders ten minste twee maanden voor de vergadering aaankondigen. Aan verzoeken van één of meer aandeelhouders die tezamen vertegenwoordigen ten minste één procent (1%) van het geplaatste kapitaal of tenminste een waarde, bepaald op basis van de prijs per aandeel waarop de aandelen publiekelijk worden verhandeld, van ten minste vijftig miljoen euro (€ 50,000,000.00) of zulk ander minimumbedrag als van tijd tot tijd bij algemene maatregel van bestuur zal worden bepaald, om onderwerpen op de agenda van de jaarlijkse algemene vergadering van aandeelhouders te plaatsen zal de Raad van Bestuur gevolg geven, mits een dergelijk verzoek ten minste zes (6) weken voor de vergadering is gedaan en er naar het oordeel van de Raad van Bestuur geen zwaarwichtige belangen van de Vennootschap zijn die zich tegen opneming in de agenda verzetten".*

Report of the Board of Directors

Ladies and Gentlemen, dear shareholders,

We have great pleasure in convening this Annual General Meeting of the Shareholders (the "**AGM**") of **European Aeronautic Defence and Space Company EADS N.V.** (hereinafter referred to as "**EADS**" or the "**Company**"). The objective of this meeting is primarily:

- first, to approve the report of the Board of Directors (the "**Board**") (the "**Board Report**") on EADS' activities during the 2004 financial year;
- second, to present the financial statements of EADS for the 12 months ended December 31, 2004, submit for your approval the accounts, the profit allocation and the cash distribution for this period and to appoint the auditors for the financial year 2005;
- third, to appoint the members of the Board of Directors for a new 5-year mandate;
- fourth, to approve the renewal of financial authorisations to the Board; and
- finally, to amend the Articles of Association of the Company.

The "Documentation for the Annual General Meeting" contains:

- the agenda for this AGM,
- the proposed resolutions which will be submitted for your approval at the end of this AGM,
- this Board Report,
- the consolidated and statutory financial statements for 2004 and the same information for the years 2002 and 2003 for comparison purposes, and
- the Auditors' Reports from Ernst & Young Accountants and KPMG Accountants N.V.

This Board Report gives only an overview of the main facts and issues. For further information and detail, *inter alia*, activities, finances, financing and corporate governance, the reader should refer to the EADS web-site at www.eads.com (Investor Relations) and to the documents posted thereon.

1 General Overview

Since its creation, in July 2000, by combining the businesses previously operated by Aerospatiale Matra, DaimlerChrysler Aerospace AG ("**Dasa**") and Construcciones Aeronáuticas SA ("**CASA**"), EADS is the recognized leader across most sectors of its operations, consolidating its control in such areas of longstanding collaboration as Airbus, Eurocopter, Eurofighter, Astrium, MBDA and the Ariane industrial framework.

With a workforce of 110,600 employees (at year-end 2004) and revenues of € 32 billion in 2004, EADS is Europe's premier aerospace and defence company and the second largest aerospace and defence company in the world.

In terms of market share, EADS has become the number one manufacturer of commercial aircraft and civil helicopters, as well as a leading supplier of missile systems, space commercial launch vehicles, military aircraft, satellites, defence electronics and related services. EADS has organized its businesses in five divisions: (i) Airbus, (ii) Military Transport Aircraft, (iii) Aeronautics (helicopters, aircraft maintenance and conversion, light and regional aviation), (iv) Defence and Security Systems and (v) Space.

In 2004, EADS generated 76% of its revenues in the civil sector and 24% in the defence sector.

2 Main Events for 2004

For the fifth consecutive year, EADS has surpassed its announced targets and has consolidated its position as a driving force in global aerospace and defence. EADS is the confirmed market leader in commercial aircraft above 100 seats, and has considerably increased its portfolio in the defence sector through military derivatives, system of systems solutions and services.

EADS' business environment in 2004 was characterized by an upturn of the international air traffic, which offers EADS a promising perspective for civil aircraft sales in the years to come, although instability in the Middle East, terror threats persisted and high oil prices impacted airline profitability. Business with public customers continued to be influenced by strong fiscal pressure weighing on budgets for public investments in EADS' home markets.

Throughout its businesses, EADS proved a strong, efficient player, and successfully positioned itself for sustained growth and profitability:

- in 2004, Airbus delivered for the second straight year more aircraft, and took in for the fourth year in a row more orders than Boeing;
- the Space division achieved turnaround after thorough restructuring;
- the defence businesses contributed increasingly to the growth in revenues and order book;

- EADS' order book at year-end was very strong with € 184 billion, of which € 135 billion in commercial, and € 49 billion in the defence business;
- EADS has generated an EBIT* of € 2.444 million and reached again a much higher net cash position than the year before (€ 4.1 billion at year-end 2004);
- EADS' stock price showed a strong performance compared with the sector in general and compared to national indices (see also "3.2 Stock price evolution 2004" of this Board Report).

In the **civil aviation business**, EADS has captured over 57% of new aircraft gross orders, reflecting the quality and performance of its product range. Airbus received 370 gross orders in 2004, including a very large order of 70 A320 for Air Berlin and Niki; Asia, Middle East and low cost airlines have supported orders.

Airbus delivered 320 units, well above the 2003 level (305), reflecting market upturn after years of soft market conditions.

Airbus realized significant commercial and technical achievements in the A380 program, and by the end of 2004 had reached the satisfactory level of 139 firm orders from thirteen customers for this aircraft. Thai Airways and Etihad have joined the roster of A380 customers in 2004.

According to schedule, the industrial structure and program management are in place. The A380 assembly hall in Toulouse was inaugurated in May 2004 and the first flying prototype was revealed to the public in the very first days of 2005. The aircraft will take to the air in April 2005 and first deliveries are expected in the middle of 2006.

In December 2004, the Board of Directors of EADS and the shareholders Committee of Airbus have approved the commercial launch (Authorisation to Offer) of the A350 aircraft to complete the long-range family of Airbus. The industrial launch will be decided if the quality and volume of demand for this aircraft are confirmed to be high.

For **defence businesses** (including all military activities: transport and fighter aircraft, helicopters, satellites, missiles, ...), 2004 was characterized by growing revenues and order book. The major contracts contributing to this achievement are the Eurofighter Tranche 2, the order of tanker aircraft by the Australian Armed Forces, the contract for an integrated border security system by the Romanian Ministry of Interior, as well as the first non-European order of NH90 helicopters by Oman.

The defence order-book as a whole has grown from € 46 billion at end 2003 to € 49 billion at end 2004, and defence revenues increased by 8% from € 7.1 billion in 2003 to € 7.7 billion in 2004.

Growing EADS capabilities and revenues in defence is a core strategic priority for the Group. A full integration of most operations and offerings within one division supports the achievement of this strategic goal.

The drastic restructuring of its **Space** business initiated by EADS following the securing of 100% ownership of Astrium in 2003 aimed at rationalizing and improving its operations was successfully implemented. This allowed the division to achieve turnaround and to finish the year 2004 with a slightly positive EBIT* of € 10 million. Sustained profitability growth is expected thereafter. Business successes contributing to the major expansion of the order-book were the contract for 30 Ariane launchers, the french ballistic missile M51 production contract, the contract for the supply of satellite communication services to NATO and the acquisition of several satellite orders such as the THEOS satellite system for Thailand and the communication satellite Anik, overall worth over € 5.7 billion.

On top of that, EADS confirmed its strong position as second largest defence supplier in Great Britain, through several major contracts, as well as the selection as preferred bidder for the Future Strategic Tanker Aircraft (FSTA) contract in early 2005.

In addition, in the frame of the globalization of its business, EADS concluded a number of partnerships, especially in Asia and Russia; and a Eurocopter manufacturing plant in the U.S.A. was inaugurated.

Although the year 2004 provided a backdrop for differences between the U.S. and the EU concerning government funding for aviation programmes, the negotiations between both sides have resumed. EADS strongly supports the objective to reach through those negotiations a level playing field in the commercial aircraft market on both sides of the Atlantic.

In 2005, in line with EADS' Articles of Association, the Board of Directors will be renewed. This process will be accompanied and closely supervised by EADS' main shareholders. Board nominations will be subject to the AGM and the Board will appoint the new management with the aim of fostering the continuity of EADS' strategy and reliability towards its stakeholders.

** EBIT pre goodwill amortisation and exceptionals - see definition below in paragraph 5.1.2 page 15.*

EADS will pursue its policy of seeking profitable growth in civil aviation, space and defence businesses by setting standards in its markets. This implies long-term value creation and the recognition of the group's corporate social and ethical responsibility. As such, EADS' strategy envisions a sustainable balance between economic performance, consideration of all stakeholders' interests, and respect of the environment.

3 Change in the Shareholding and Stock Price Evolution

In 2004, the following changes in the shareholding of the Company and in stock price took place.

3.1 Shareholding and voting rights

Issued share capital

As of December 31, 2004, EADS' issued share capital amounted to € 809,579,069 divided into 809,579,069 shares of a nominal value of € 1 each.

Evolution in 2004

On October 8, 2004, the Board approved the following measures in accordance with the authorisations granted by the shareholders' meeting dated May 6, 2003 and May 6, 2004:

- the offering of up to 2,018,000 shares to eligible employees of EADS within the framework of an employee share ownership plan ("**ESOP**"). As a result, on December 3, 2004, 2,017,822 shares were issued;
- the granting of stock options to selected EADS employees for the subscription of 7,777,280 shares in the Company, within the framework of a stock option plan ("**SOP**");
- The delegation given to the Chief Executive Officers ("**CEOs**") to set up and implement a share buy-back programme whereby up to 4,909,000 shares could be purchased by the Company in order to compensate 50% of the dilution of equity resulting from the ESOP and SOP described above. Treasury shares held by EADS will be used for that purpose. During 2004, EADS didn't repurchase shares, however has entered into contracts with a bank to purchase EADS shares on EADS' behalf through derivative products in order to compensate dilution effect resulting from previous SOP. Even though such shares are legally owned by the bank until possible transfer to EADS, economic ownership lies with EADS.

  Due to this, treasury shares increased accounting-wise by 3,787,523. Further, 5,686,682 treasury shares were cancelled on July 20, 2004 in accordance with the decision of the shareholders' meeting dated May 6, 2004, resulting accounting-wise in an amount of 10,028,775 treasury shares at December 31, 2004.
- Finally, in 2004, EADS employees exercised 362,747 stock options granted to them through stock option plans launched by the company in the years 2000, 2002 and 2003. As a result 362,747 new shares were issued in the course of 2004.

Shareholding structure

As a result of the above, EADS' issued share capital was owned on December 31, 2004 as follows:

- 0.77% by the Company itself, and consisting of shares deprived from economic and voting rights, while owned by the Company;
- 30.20% (i.e.: 30.43% of the voting rights) indirectly by DaimlerChrysler AG;
- 30.20% (i.e.: 30.43% of the voting rights) by the Société de Gestion de l'Aéronautique, de la Défense et de l'Espace ("**SOGEADE**"), a French partnership limited by shares and whose share capital is held 50% by the Société de Gestion de Participations Aéronautiques ("**SOGEPA**") (a French State holding company) and 50% indirectly by Lagardère SCA;

  Thus, 60.40% (i.e.: 60.86% of the voting rights) of the Company's issued share capital is held in equal proportions by DaimlerChrysler AG and SOGEADE, who jointly control EADS through a contractual partnership governed by Dutch law.
- 5.52% (i.e.: 5.56% of the voting rights) by Sociedad Estatal de Participaciones Industriales ("**SEPI**") (a Spanish State holding company), also party to the contractual partnership mentioned above;
- 33.25% (i.e.: 33.52% of the voting rights) by the public (including EADS employees 3.13% (i.e.: 3.15% of the voting rights)); and
- 0.06% (i.e.: 0.06% of the voting rights) directly by the French State.

3.2 Stock price evolution 2004

The institutional shareholder base broadened in 2004. US and UK investor holdings peaked in mid year (55% of institutional shareholders), while the French shareholder base, having decreased to 20%, regained ground in the second semester, and German investor positions grew

to 12%. Investors motivated by 'growth' prospects became more present, while the 'value' style receded slightly. Positions held by index funds increased by half during 2004, despite the reduced weighting of the stock in the CAC40 since December 2003.

The EADS share price evolved through three main phases – a hesitant start, robust overperformance and then a turbulent end to the year. Closing at € 21.39 on December 31, it was up 14% over the year, while the CAC40 progressed by only 6%, and the rest of the sector showed weaker performance. Average daily trading volumes of EADS on Euronext stood at 1.9 million shares.

A hesitant start: The consolidation period begun following the remarkable share price performance of 2003 lingered into the early months of 2004. Initial 2004 EBIT* guidance on January 8, below consensus, raised questions about profit growth, and the sudden slide of the U.S. Dollar against the Euro bred nervousness. 2003 earnings were announced on March 8, revealing remarkable cash flow while guidance was aligned with consensus. But it was not until the U.S. Dollar displayed sustained appreciation that the EADS stock price moved upwards from its 2004 low of € 16.55.

Robust overperformance: From March 23 to April 27 the stock rose 31%, fuelled by the Dollar strengthening, and an EBIT* consensus hike of € 150 million. Subsequently, guidance increases translated into improved market expectations: first on the first quarter earnings announcement of May 12; at the Global Investor Forum held in Toledo on June 21; at the Farnborough Airshow in mid-July; on the half year earnings release of July 29 where EBIT* guidance was increased to € 2.1 billion; and, finally, on the third quarter earnings announcement, when it was raised again to € 2.2 billion with a promise of more than 315 Airbus deliveries. Investors confidently ignored the US Dollar slump which resumed at the end of August. Throughout the period, EADS stock price volatility was significantly less than market wide volatility. Only with the start of rumours concerning a potential merger with defence company Thales did volatility pick up again, and the stock of both companies start to appreciate. During that period, very large institutional shareholders added to their positions.

Final turbulence: After November 11, when the stock had reached its 2004 peak of € 24.90, the stock embarked on a 14% slide until year-end. For the first time since March 2003, EADS stock was out of favour – as very high trading volumes in early December show. Press coverage of the CEO designation cast a shadow over all subsequent events:

An accumulation of negative newsflow led to a rising sense of uncertainty in the market: The US Dollar lost more than 7 cents against the Euro, falling to a record low of € 1.36 in a short period, while oil prices remained volatile and high; the Thales merger story was perceived as a risk to the cash resources of the Company; the A350 'authorisation-to-offer' suggested that additional R&D might hamper medium term profitability; 2005 financial guidance, issued on December 10, appeared too conservative; the announcement of increased A380 non-recurring costs at completion raised further worries.

Year-end profit taking and stop-loss orders drove the share price down to a strong support level at which core institutional shareholders decided to add to their positions. But from mid December, the stock price rebounded as a concentrated stream of positive news reinforced the defence and space stories, and built confidence in the A350 programme.

3.3 Dividend policy

The Board will recommend to the AGM a cash distribution of a gross amount of € 0.50 per share with respect to the year 2004. The amount of the proposed cash distribution results from the Company's performance during the year 2004, and from the examination of payout ratios based on net income before goodwill amortisation for a collection of relevant European companies.
This distribution level reflects management's confidence in the Company's future earnings as the growth of air traffic and its translation in demand for aircraft, the successes of defence activities and the continued attraction of the A380 as it is nearing initial deliveries suggest a vision of sustained growth.

In the future, EADS' dividends and attributions to reserves will be proposed to the shareholders by the Board depending on factors such as EADS' distribution capacity arising from performance, its priorities for cash utilisation and confidence in future prospects (payment levels will also take external factors into account, such as the dividend policies of relevant European and international companies).

3.4 Relationship with principal shareholders

The agreements governing the relationship between the founders of EADS and entered into at the time of the creation of EADS in July 2000 are still in place.

3.5 Future ESOP and SOP

In the past, EADS' Employee Share Ownership Plans (ESOP) and Stock Option Plans (SOP) proved to be successful tools to retain and reward EADS employees' development.

** EBIT pre goodwill amortisation and exceptionals - see definition below in paragraph 5.1.2 page15.*

3.5.1 Future ESOP

The Company intends to implement an ESOP in 2005. The plan's implementation would have to be formally approved by the Board. The 2005 plan would have the following main characteristics: offer and issue, subject to the approval of this AGM, of up to approximately 2 million shares of the Company, i.e. up to 0.25% of its issued share capital, to certain eligible employees, at a subscription price equal to the lowest price on the Paris Stock Exchange on the date of the decision of the Board, minus 20%, corresponding to average discount conditions of the market. Eligible employees may also invest through a French saving plan at a price equal to the higher of such subscription price and 80% of the average opening prices of the shares over the last 20 sessions of the Paris Stock Exchange preceding the date of the decision of the Board.

3.5.2 Future SOP

The Group is keen to maintain this long term incentive plan. Therefore, as done in the previous years, the Company also intends to implement a SOP in 2005. The plan implementation would again have to be formally approved by the Board. This plan would offer rights to subscribe to up to approximately 8 million shares in the Company, i.e. up to 1% of its issued share capital, given to specific beneficiaries, on the basis of a capital increase subject to the approval of this AGM.

Vesting criteria for such long term incentive plan will be linked to mid term business performance.

4 Corporate Governance

In 2004, the Board of EADS continued to uphold the driving principle of maximising shareholder value and compliance with applicable law and Corporate Governance principles in the countries relevant for the Company, while also enhancing its focus on Corporate Governance best practices.

4.1 Management and control

EADS' management structure has proved efficient and well adapted to fulfil its commitment and targets towards its shareholders and to assure a sustainable and balanced relationship with all other stakeholders. The fostering of employee and supplier development as well as customer satisfaction, remained a fundamental principle of EADS' culture and the basis for its success.

As laid down in the Articles of Association of EADS, the Board of Directors is in charge of the management and the affairs of the Company.

The Board met seven times in the year 2004 and was regularly informed of developments through business reports from the CEOs, including rolling forecasts as well as strategic and operational plans. Topics intensively discussed and operations authorised at these meetings included EADS strategy, reorganisation processes (such as the continuation of the restructuring of the divisions Space and Defence and Security), major business issues (such as the A350 launch decision, the Eurofighter Tranche 2 contract, the impact of the U.S. Dollar evolution on EADS business, review of the EADS UAV programs, the acquisition of Racal Instruments Defence Group in the US), and the approval of operational plans, budgets, hedging policy, remuneration (including a SOP and an ESOP) and the Group's financial results and forecasts. The Board also dealt with topics regarding personnel and human resources, such as management qualification as well as attracting, retaining and developing high potentials in order to ensure the future quality of EADS' management and the multi-national leadership structure.

In addition to the rules governing the proceedings of the Board ("Internal Rules for the Board of Directors"), initially adopted by the Board in July 2000 and amended in December 2003, the Board adopted in its meeting on December 10, 2004 a Directors' Charter and Audit and Remuneration and Nomination Committees' Charters detailing the rights and duties of the Directors in the light of corporate governance best practice and the enhanced roles of both committees.

Following the changes to EADS' Corporate Governance decided in 2003 in light of the Corporate Governance best practices developed in jurisdictions relevant to EADS, the Board supervised the implementation of such decisions during the year 2004. Amongst other matters, the enhancement of shareholders' access to information was addressed through, for example the setting-up of specific corporate governance pages on EADS' web-site (such as pages regarding the Company's corporate governance principles, the Insider Trading Rules, and the Internal Rules for the Board of Directors).

The Audit Committee, met five times during the year 2004 to review the 2003 results as well as the first half-year results for 2004. As decided by the Board on December 5, 2003, the role of the Audit Committee was increased with new tasks such as, in particular, the review of the quarterly financial reports. It also discussed extensively some specific effects with positive impact on EADS results, which were triggered in particular by the new Airbus set up, as well as influence of currency rates on EADS business.

The Remuneration and Nomination Committee, formerly named Personnel Committee, met four times during the year 2004 to review the compensation policy (including pension schemes), the bonus payments for 2003, and the ESOP and SOP for 2004, and to recommend the appointment of the chief executive officers of the Company's main business units such as EADS Sogerma, Military Aircraft and Defence Electronics. Furthermore this Committee made a recommendation to the Board on the name of a new member of the Airbus Executive Committee. The Remuneration and Nomination Committee also made recommendations regarding the appointment of the chief executive officer of EADS Deutschland GmbH and the chief executive officer of Eurofighter GmbH.

Last year's self-evaluation was conducted as from January 2004 by the Chairmen of the Board, based upon Board Member responses to a questionnaire. The Chairmen jointly evaluated the feedback of the Members of the Board and led a discussion of the results at the March 5, 2004 Board meeting.

The self-evaluation comprised a general assessment of the meetings and processes of the Board and a review of the activities of the Board 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 were also asked to consider the functioning and the composition of the Board, 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.

The findings of the first self-assessment concluded that the overall performance of the Board is very satisfactory.

Overall, the quality of the work carried out by the Board Committees was also judged very satisfactory. On December 5, 2003, the Board of Directors empowered the Audit Committee and the Remuneration & Nomination Committee with an increased scope of authority in line with the improved corporate governance standards in the EADS' home countries.

Since the last self-assessment in 2004, which had shown positive results already, further progress has been made in the meantime by implementing the described improvement measures. Also, the meeting attendance for Board and Remuneration & Nomination Committee Meetings has further increased in 2004 compared to the previous year.

Continuous improvement and effectiveness of governance and management of the Group will remain a prime focus and key success factor of EADS.

4.2 Dutch Corporate Governance Code

In accordance with Dutch law and with the provisions of the Dutch Corporate Governance Code (the "**Dutch Code**"), which includes a number of non-mandatory recommendations, the Company will apply the provisions of the Dutch Code or, if applicable, explain the reasons for non-application of such provisions.

While EADS, in its continuous efforts to adhere to the highest standards, applies most of the recommendations, it must, in accordance with the Dutch Code's "Apply or Explain" principle, provide the following explanations:

1. **EADS is a controlled Company and, therefore, most of the Members of the Board, Audit Committee and Remuneration and Nomination Committee are designated and can be removed by its controlling shareholders.** Nevertheless it should be noted that a self-assessment of the Board confirmed that the Members of the Board designated by the controlling shareholders hold opinions and defend positions that are in all relevant aspects aligned with the economic interests of individual shareholders. Given the absence of material conflicting business interests between EADS and its controlling shareholders, and the independence of the controlling shareholders from one another, the Members of the Board designated by the controlling shareholders are deemed to fairly represent the interests of all shareholders in acting critically and independently of one another and of any particular interests. Furthermore, the Board's composition, with a wide range of different experiences represented in the Board and the running of meetings is conducive to the expression of autonomous and complementary views.

   This explains why:

   a) Two Members of the Board out of eleven are independent (whereas provision III.2.1 of the Dutch Code recommends that there be not more than one non-independent Board Member);

   b) Members of the Board retire simultaneously on a five-yearly basis (whereas provision III.3.6 of the Dutch Code recommends that there be a retirement schedule to avoid, as far as possible, a situation in which many Non-Executive Members of the Board retire at the same time);

   c) The Board is headed by two (2) Chairmen. There is therefore no need for a Vice-Chairman to deal with the situation when vacancies occur as recommended by provision III.4.1(f) of the Dutch Code.

d) EADS' Audit Committee does not have independent Members and this Committee is chaired by the Chairmen of the Board (whereas provision III.5.1 of the Dutch Code recommends that there be not more than one non-independent Audit Committee Member and provision III.5.6 recommends that the Audit Committee not be chaired by the Chairmen or by a current or former Executive Member of the Board);

e) EADS' Remuneration and Nomination Committee does not have independent Members and this Committee is chaired by the Chairmen of the Board (whereas provision III.5.1 of the Dutch Code recommends that there be not more than one non-independent Committee Member, provision III.5.11 recommends that the Remuneration Committee shall not be chaired by the Chairmen or by a former Executive Member of the Board, or by an Executive Member of the board of another listed company and provision III.5.12 recommends that no more than one Member of the Remuneration Committee shall be an Executive Member of the board of another Dutch listed company);

f) EADS' Remuneration and Nomination Committee comprises, *inter alia*, Executive Members of the Board (whereas provision III.8.3 of the Dutch Code recommends that Committees of the Board shall consist only of Non-Executive Members of the Board);

g) EADS' Remuneration and Nomination Committee is not the relevant body responsible for the selection procedure and nomination proposals for Members of the Board (whereas provision III.5.13(a) of the Dutch Code recommends that such Committee shall focus on drawing up selection criteria and appointment procedures for Members of the Board; and provision III.5.13(d) recommends that such Committee shall focus on making proposals for appointments and reappointments).

2. As for remuneration of Members of the Board:

a) EADS is compliant with the general principles applicable in the markets where it is listed. Regarding granting of stock options to Executive Members of the Board, a 10% premium is taken into account when determining the granting price and performance criteria are applied for part of the options granted, as explained in "4.3.2 SOP" (whereas provision II.2.1 of the Dutch Code recommends that options to acquire shares be a conditional remuneration component, and become unconditional only when the Members of the Board have fulfilled predetermined performance criteria after a period of at least three years from the grant date and provision II.2.2 recommends that if the company, notwithstanding provision II.2.1, grants unconditional options to Executive Members of the Board, it shall apply performance criteria when doing so and the options should, in any event, not be exercised in the first three years after they have been granted);

b) Remuneration of Executive Members of the Board in case of dismissal is under review by EADS in an effort to align itself with best practice recommendations (whereas provision II.2.7 of the Dutch Corporate Governance Code recommends that the maximum remuneration in the event of dismissal be one year's salary (the 'fixed' remuneration component), and that if the maximum of one year's salary would be manifestly unreasonable for an Executive Board Member who is dismissed during his first term of office, such board member be eligible for severance pay not exceeding twice the annual salary).

3. EADS is listed on the Francfort, Paris and Spanish stock exchanges and endeavours to strictly comply with the relevant regulations and follow the general practices on these markets protecting all its stakeholders. Moreover EADS has adopted Insider Trading Rules providing for specific internal rules, *inter alia*, governing Members' of the Board holding and trading of shares in EADS and other companies. Therefore, in line with these rules and these regulations and common practices in the jurisdictions in which the Company is listed:

a) EADS does not require Members of the Board to give periodic notice of any changes in their holding of securities in Dutch listed companies to the EADS Compliance Officer (whereas provisions II.2.6 and III.7.3 of the Dutch Code recommend such a notice unless a Board Member only invests in listed investment funds);

b) EADS does not require Members of the Board to treat their securities in the Company as a long-term investment (whereas provision III.7.2 of the Dutch Code recommends such a treatment);

c) The term of office of Members of the Board is five years without limitation on renewal (whereas provisions II.1.1 and III.3.5 of the Dutch Code recommend that there be no more than three four year terms for Non-Executive Members

of the Board and that there be four year terms (without limitation on renewal) for Executive Members of the Board);

d) EADS does not follow various recommendations for dealings with analysts including allowing shareholders to follow meetings with analysts in real time and publishing presentations to analysts on the website as set out in provision IV.3 of the Dutch Code;

e) EADS' Articles of Association provide that a new holder of 33.33% of the Company's shares must make an unconditional public offer to all shareholders in order to acquire 100% of EADS' shares. The Articles of Association provide for the issue of depositary receipts for shares if there is a breach of this obligation thereby limiting the voting power of such new holder of shares. In these special circumstances, for the protection of all shareholders, the Company does not apply chapter IV.2 of the Dutch Code, which includes rules applicable to depositary receipts for shares;

f) In accordance with EADS' Articles of Association, shareholders attending EADS' shareholders meetings must be shareholders on the date of the meeting to exercise their voting rights (whereas provision IV.1.7 of the Dutch Code recommends that the Company set a "registration date" prior to the shareholders' meeting and that shareholders must be shareholders on the date of such "registration date" to exercise their voting rights at the shareholders' meetings even if those persons are not any longer shareholders on the date of such meeting).

4. **EADS' internal control and risk management have been further developed into a Group wide internal control and risk management framework.** As this framework (and relevant aspects referred to in the Dutch Code) is currently being implemented throughout the Group, the Board will make a declaration on the adequacy and effectiveness of the Group's internal control and risk management systems as soon as the implementation is complete (whereas provision II.1.4 of the Dutch Code recommends that such a declaration be included in the Board Report).

5. **EADS considers putting in place a procedure for handling complaints regarding financial reporting, internal risk management and control systems, as well as regarding general operational matters.** Therefore it would shortly comply with provision II.1.6 of the Dutch Code which recommends that a company ensures that its employees have the possibility of reporting alleged irregularities of a general, operational and financial nature in the company or concerning the functioning of the Executive Members of the Board to the Chairmen of the Board or to an official designated by them and that such arrangements for whistleblowers be posted on the Company's website.

4.3 Remuneration policy of the members of the Board of Directors

EADS' compensation policy aims at attracting and retaining talents that will contribute to the Group's business success. Shareholders expect a strong commitment from Members of the Board; the compensation policy is therefore designed to focus efforts on what the Group wants to value and reward.

The compensation of the Executive Members of the Board combines short-term and long-term reward.

For a thorough report on the remuneration of the members of the Board during the year 2004 together with additional information such as numbers of stock options, see "Notes to the Statutory Financial Statements - Note 8: Remuneration".

4.3.1 Compensation of the Board

The respective elements of EADS compensation policy for Non-Executive Members of the Board on the one hand and Executive Members of the Board on the other hand are summarized in the following paragraphs.

4.3.1.1 Compensation of Non-Executive Members of the Board

The Non-Executive Members of the Board are entitled to receive an accumulated total target compensation as a group of Non-Executive Members of the Board on a full year basis of € 900,000. This target compensation includes (i) a fixed part of € 30,000 per Member of the Board and € 60,000 per Chairman, (ii) a fee for participation in Board meetings as well as Committee meetings (if such Committee meetings take place on a different date than the Board meetings) of € 5,000 per Member of the Board and € 10,000 for each Chairman, per meeting and (iii) a variable part consisting of a profit sharing (bonus) calculated according to EBIT* and gross cash results of the EADS Group, of € 50,000 per Member of the Board and € 100,000 per Chairman at 100% target achievement.

The profit sharing calculation rules for Non-Executive Members of the Board are the same as for the Executive members of the Board (see below).

** EBIT pre goodwill amortisation and exceptionals - see definition below in paragraph 5.1.2 page 15.*

4.3.1.2 Compensation of Executive Members of the Board

The remuneration policy for Executive Members of the Board follows the same principles as the remuneration policy for EADS Executive Committee members.

The Executive Members of the Board are entitled to receive a total target compensation divided into a fixed part and a variable part; total compensation is 50% fixed and 50% variable (in case of overachievement of the targets, the variable part can exceed 50% of total compensation).

The variable part is calculated on the basis of two equal components:

- Profit sharing (50% of the variable part) to reward business performance at Group level or division level (if applicable). Starting in 2004, gross cash has been introduced as a complementary financial indicator to EBIT* (EBIT* will represent 75% of the profit sharing and gross cash represents 25% of the profit sharing).
- Individual bonus (50% of the variable part) to reward individual performance measured against the achievement of individual objectives.

Executive Members of the Board are also eligible to long term incentive reward through the EADS stock option plans (see below). They receive neither Board attendance fees nor any dedicated compensation as members of the Board.

Two benchmark studies on Board compensation conducted in May 2003 and December 2004 for Non-Executive and Executive Members of the Board basically confirmed that the compensation structure is generally in line with European market practices.

4.3.2 SOP

Executive Members of the Board are eligible for the EADS SOPs, which are a general tool for talent retention and promotion of Company value growth. The SOP is designed to reward Group key players (including Executive Members of the Board) who are:

- Executives and,
- Selected high potential individuals.

The population of EADS Executives is granted stock options based on their hierarchical level. Extra grants can also be distributed to reward personal performance and potential. In total, about 1,500 key players have been eligible for the SOP in 2004.

** EBIT pre goodwill amortisation and exceptionals - see definition below in paragraph 5.1.2 page 15.*

If, as planned a SOP is implemented in 2005, the maximum number of stock options to be granted to Executive Members of the Board should be 500,000 in total. In addition, vesting of stock options for Senior and Corporate Executives, Executive Committee members and Executive Members of the Board will be conditional upon mid term business performance.

The Remuneration and Nomination Committee makes recommendations to the Board, who finally decides on the individual grant allocation.

4.3.3 ESOP

EADS Executive Members of the Board are eligible for the ESOP under the same conditions as any of EADS' employees, being individuals under contract with EADS or with its subsidiaries (more than 50% directly or indirectly held by EADS and companies in which EADS holds more than a 10% stake and where it exercises a material influence on the management). As eligible persons, Executive Members of the Board are entitled to subscribe, during the subscription period, to a maximum of 500 shares per plan each (2,000 in total) with a discount to the market price. Those shares cannot be sold during a period of 1 year in case of a direct ownership or a period of 5 years in case of ownership through a mutual fund. If, as planned, such a plan is launched in 2005, this policy shall be maintained.

4.3.4 Pension benefits

The Executive Members of the Board have pension promises as part of their employment agreements. The general policy is to give them annual pensions of 50% of their annual base salary after five years in the Executive Committee of EADS at the age of 60 to 65. In case of the CEOs, the policy allows retirement starting at the age of 60. This obligation will increase to 60% after a second term, usually 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 for e.g. minimum length of service and other conditions to comply with national regulations.

4.3.5 Policy for termination package

Non-Executive Members of the Board have no termination package.

Executive Members of the Board are entitled to a termination package when the parting results from a decision by the Company. Such package varies according to the type of their contracts:

- Fixed terms contracts (5 years): full pay until the end of the contract period plus a maximum of 18 months of target income, or
- Indefinite term contract: a maximum indemnity of 24 months of target income.

New terms and conditions with respect to termination packages may be introduced in the new contracts for Executive Members of the Board after the renewal of the Board at the AGM 2005 in order to align with general market practices.

4.3.6 Policy for loans and guarantees granted to Members of the Board

General EADS policy is not to grant any loans to its Members of the Board or members of the Executive Committee.

5 Financial Highlights

EADS prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“**IFRS**”). Thus, EADS decided to anticipate adoption of IFRS 3 and revised IAS 36 and IAS 38 and to apply these standards as of January 1, 2004. Consequently, from 2004 goodwill is no longer amortized but tested for impairment at least annually as well as whenever there are indications of impairment. Same rule applies to intangible assets with an indefinite useful life. In 2003, EADS recognized goodwill amortisation amounting to € 567 million.

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.

5.1 EADS N.V. Consolidated Financial Statements (IFRS)

Table 1 – **Consolidated Income Statments (IFRS)**

(in millions of €)	**2004**	**2003**
Revenues	**31,761**	**30,133**
Cost of sales	(25,510)	(24,594)
Gross margin	**6,251**	**5,539**
Selling expenses	(798)	(776)
Administrative expenses	(1,321)	(1,386)
Research and development expenses	(2,126)	(2,189)
Other income	314	196
Other expenses	(177)	(823)
thereof goodwill amortisation and related impairment losses	*0*	*(567)*
Income from operating activities	**2,143**	**561**
Financial result	(246)	131
Income taxes	(664)	(474)
Profit from ordinary activities	**1,233**	**218**
Minority interest	(203)	(66)
Net income	**1,030**	**152**

5.1.1 Revenues

Stronger revenues of € 31.8 billion (2003: € 30.1 billion) were achieved through growth across all five divisions. Key growth drivers were Airbus, which benefited from the start of the market upturn, and EADS Defence businesses, up 8% to € 7.7 billion (2003: € 7.1 billion). At constant U.S. Dollar exchange rates, total EADS revenues would have grown by 7%.

Table 2 – **Revenues by division**

(in millions of €)	**2004**	2003	Change
Airbus	20,224	19,048	1,176
Military Transport Aircraft	1,304	934	370
Aeronautics	3,876	3,803	73
Space	2,592	2,424	168
Defence & Security Systems	5,385	5,165	220
HQ / Consolidations	(1,620)	(1,241)	(379)
Total EADS Group	**31,761**	**30,133**	**1,628**

Airbus delivered 320 aircraft, after delivering 305 aircraft in 2003. Revenues increased by 6% to € 20,224 million which was a result of the higher number of deliveries, a more favourable aircraft product mix and a positive accounting impact originating from the Airbus GIE merger into Airbus SAS, being partly compensated by less favourable hedges.

The **Military Transport Aircraft** Division recorded a 40% increase in revenues to € 1,304 million (2003: € 934 million) mainly driven by milestones reached in the A400M programme.

Revenues at the **Aeronautics** Division (€ 3,876 million) slightly increased compared to 2003 (€ 3,803 million) with especially good performance at Eurocopter with its first Tiger deliveries to Australia, being partly offset by persisting difficulties of the commercial aircraft maintenance business.

Space revenues of € 2,592 million increased from € 2,424 million in 2003 mainly due to higher sales of services to the British MoD.

Defence & Security Systems Division revenues were up 4% to € 5,385 million compared to € 5,165 million in 2003 mainly driven by the growth at MBDA.

5.1.2 EBIT pre goodwill amortisation and exceptionals

EADS uses EBIT (“Earnings Before Interest and Taxes”) pre goodwill amortisation and exceptionals as a key indicator of its economic performance. The term “exceptionals” refers to such items as amortisation 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 amortisation and exceptionals is treated by management as a key indicator to measure the segments’ economic performances.

Table 3 – **Reconciliation Income from operating activities to EBIT* (IFRS)**

(in millions of €)	**2004**	2003
Income from operating activities	**2,143**	**561**
Goodwill amortisation and related impairment losses	0	567
Exceptional depreciation (fixed assets)	212	214
Exceptional depreciation (inventories)	5	15
Income from investments	84	186
EBIT pre goodwill amortisation and exceptionals	**2,444**	**1,543**

** Pre goodwill amortisation and exceptionals.*

Table 4 **– EBIT* by division**

(in millions of €)	2004	2003	Change
Airbus	1,922	1,353	569
Military Transport Aircraft	26	30	(4)
Aeronautics	206	217	(11)
Space	10	(400)	410
Defence & Security Systems	228	171	57
HQ / Consolidations	52	172	(120)
Total EADS Group	**2,444**	**1,543**	**901**

** Pre goodwill amortisation and exceptionals.*

In 2004, EADS achieved an EBIT* of € 2,444 million, a 58% increase by € 901 million compared to 2003 (€ 1,543 million).

The **Airbus** Division's EBIT* increased to € 1,922 million (2003: € 1,353 million) mainly driven by higher aircraft deliveries with a higher proportion of large aircraft, cost savings, an accounting-driven positive net impact from the Airbus GIE merger into Airbus SAS (€ 232 million). It was partly offset by less favourable hedges. Airbus' EBIT* margin reached 9.5%. R&D capitalization stood at € 152 million, corresponding to A380 development.

The **Military Transport Aircraft** Division's EBIT* slightly decreased to € 26 million (2003: € 30 million) which was affected by early retirement charges of € 28 million (2003: € 17 million) and expensed pre-contract costs for the British tanker programme (FSTA).

In the **Aeronautics** Division, Eurocopter's continued EBIT* growth was offset by persisting difficulties of the commercial aircraft maintenance business leading to an EBIT* of € 206 million (2003: € 217 million).

The **Space** Division achieved its turnaround as scheduled and reached an EBIT* of € 10 million (2003: € -400 million).

The **Defence & Security Systems** Division's EBIT* increased by € 57 million to € 228 million, including a provision release on a litigation (€ 106 million), partly offset by some restructuring charges of € 88 million (2003: € 50 million), campaign costs on Herkules, as well as self-financed investments in future business such as EuroMALE.

At EADS **Headquarters**, EBIT* contribution deteriorated from € 172 million to € 52 million, mainly due to the IFRS result of the Dassault Aviation participation.

5.1.3 Consolidated Balance Sheets (IFRS)

Table 5 **– Consolidated Balance Sheets (IFRS)**

	At December 31,		
(in millions of €)	2004	2003	Change
Fixed assets	27,003	25,271	1,732
Non-fixed assets	27,770	25,432	2,338
Deferred taxes and prepaid expenses	3,494	3,675	(181)
Total assets	**58,267**	**54,378**	**3,889**
Shareholders' equity	16,973	16,149	824
Minority interests	2,370	2,179	191
Provisions	8,573	8,726	(153)
Liabilities	24,226	21,202	3,024
Deferred taxes and deferred income	6,125	6,122	3
Total liabilities and equity	**58,267**	**54,378**	**3,889**

** EBIT pre goodwill amortisation and exceptionals.*

5.1.4 Net Cash

As of December 31, 2004, the EADS Net Cash position (net balance between cash and cash equivalents, and financial liabilities) was € 4,058 million, compared to € 3,105 million in 2003.

Cash and cash equivalents increased by € 1,315 million to € 8,718 million. This improvement resulted primarily from strong operations and reduction of working capital needs, leading to cash provided by operating activities of € +5,013 million (2003: € +4,709 million).

Cash used for investing activities amounted to € -3,749 million (2003: € -3,475 million) including capital expenditure for the A380 programme (€ -1,324 million) and cash outlay for Paradigm (€ -318 million).

Cash provided by financing activities amounted to € +52 million (2003: € +852 million). This included among others the cash distribution paid to shareholders of € -320 million (€ -240 million in 2003) and change in financial liabilities of € 474 million (2003: € 1,132 million) triggered namely by bank facilities for Skynet 5.

5.1.5 Order Intake and Order Book

EADS order intake reached € 44.1 billion in 2004. In 2003, the respective order intake figure amounted to an extraordinary € 61.2 billion which included the huge € 19.8 billion A400M contract. Nevertheless, the 2004 order intake was again significantly higher than 2004 revenues. Defence businesses' order intake amounted to € 11.4 billion (2003: € 30.8 billion, thereof € 19.8 billion forA400M).

Airbus order intake increased to 366 commercial aircraft ordered (370 gross orders and 4 cancellations) in 2004, compared to 254 net orders booked (after 30 cancellations) in 2003. Moreover, in 2004 Airbus contracted two new customers for the A380 which brought the total of firm A380 orders to 139 aircraft at year-end 2004.

Military Transport Aircraft Division order intake of € 1.2 billion was driven by the order of 5 MRTT from Australia.

Aeronautics order intake of € 4.3 billion increased compared to 2003 (€ 3.7 billion) mainly due to a higher order intake level received by Eurocopter. Eurocopter achieved to book 332 net helicopter orders in 2004 (2003: 293 net helicopter orders).

The **Space** Division's order intake in 2004 remained with € 5.7 billion on the high level achieved in 2003 (€ 6.1 billion). This was mainly due to orders for M51, Ariane 5 and ATV.

Defence & Security Systems Division's order intake again increased by € 2.2 billion compared to 2003 to a total of € 8.5 billion (2003: € 6.3 billion). This was mainly a result of the order intake for Eurofighter Tranche 2, Romania border surveillance and the Acropol contract for secure communication.

Order book

The EADS order book improved by 3% to a total of € 184.3 billion at the end of 2004 (2003: € 179.3 billion). With a constant €-U.S. Dollar exchange rate, the order book would have increased by 7%.

Defence order book part reached € 49.1 billion (2003: € 45.7 billion).

Table 6 - **Order Intake and Order Book by Division**

	Order Intake		Order Book	
(in millions of €)	**2004**	2003	**2004**	2003
Airbus	25,816	39,904	136,022	141,836
Military Transport Aircraft	1,176	20,326	19,897	20,007
Aeronautics	4,339	3,661	10,171	9,818
Space	5,658	6,062	11,311	7,888
Defence & Security Systems	8,457	6,288	17,276	14,283
HQ / Consolidations	(1,329)	(15,091)	(10,389)	(14,552)
Total EADS Group	**44,117**	**61,150**	**184,288**	**179,280**

5.2 EADS N.V. Statutory Accounts (Dutch GAAP)

Table 7 – **Statutory Balance Sheets (Dutch GAAP)**

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

Table 8 – **Statutory Income Statements (Dutch GAAP)**

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

As EADS applied IFRS 3 and IAS 36 in 2004, no amortisation of goodwill was recorded in 2004, but goodwill was tested for impairment. Under Dutch law, IFRS 3 may only be applied from 2005 onwards and therefore goodwill should be amortized over its expected useful life. As a result, EADS faces a difference between IFRS and Dutch GAAP in 2004, which will disappear in 2005 when The Netherlands have finalized the process of implementing the EU-regulations relating to the use of IFRS for listed companies. As for the Annual General Meeting, EADS Dutch GAAP 2004 Statutory Accounts will be subject to approval by the shareholders, the accounts are presented above.

6 Financial targets for 2005

EADS expects its 2005 revenues to grow to around
€ 33 billion, impacted partly by a weaker dollar assumption (€ 1 = US$ 1.30). Defence businesses' revenues should increase by 10% during the course of the year (2004: € 7.7bn).

EBIT* is expected to grow to more than € 2.6 billion (up 6%), reflecting an increase in divisional performance across the Group, partly offset by less favourable hedges, and by the weak U.S. Dollar for the unhedged portion of the net exposure.

** EBIT pre goodwill amortisation and exceptionals.*

EADS expects Airbus to deliver 350-360 aircraft in 2005. Airbus revenues are expected to increase in line with higher deliveries of single aisle aircraft. The 2005 aircraft mix will be less favourable than in 2004. The positive accounting impact from the Airbus GIE merger into Airbus SAS is expected to diminish in 2005.

Free Cash Flow before customer financing and Paradigm investment outflows is expected to be positive in 2005. Earnings Per Share should increase in 2005 by 5% to € 1.36, based on an average of 803 million shares.

7 EADS Strategic challenges

7.1 Group strategic challenges

Taking EADS the Step Beyond

Since the creation of EADS, group integration has been successfully completed with efficient management structures. EADS has launched major new programs, and entered new business segments and international markets. The Group continuously delivered robust financial results despite operating in a turbulent geo-political and macro-economic environment.

Today, the business environment is still considered volatile. The appreciation of the € against the US$ is increasingly detrimental, and high oil prices put EADS' customers under pressure. Middle East instability and terror threats remain a factor.

Nevertheless, improving market conditions for EADS segments are manifest: Global air-travel is back on track and has never been higher (12% above 2003 or 3% above 2000 level) and new governmental priorities for Defence and Homeland Security create opportunities for EADS in all key countries.

Based on the market successes of its businesses EADS confidently asserts its strategic goal of being a worldwide leader in Aerospace and Defence and to sustain and enhance this position. Profitable growth will be based on a uniquely positioned, modern product portfolio, a philosophy of continuous innovation guaranteeing technology leadership, expansion into new profitable business fields and global successful positioning, as well as contract execution.

The strategy, designed to take EADS "The Step Beyond", is composed of 5 key elements:

** EBIT pre goodwill amortisation and exceptionals - see definition below in paragraph 5.1.2 page 15.*

7.1.1 Beyond Competition - Strengthening further the competitive position

EADS has demonstrated and seeks to maintain global market leadership in the commercial aircraft market - through Airbus; in helicopters - through Eurocopter; in missiles - through MBDA and LFK and in commercial launchers - through EADS Space Transportation.

EADS' space and defence businesses are positioned among the global industry leaders but still have to win ground. The target of € 10 billion in overall defence and homeland security revenues by around 2006/2007 stems from the firm order-book; it reflects the successes of our young and competitive product portfolio, featuring programmes such as the A400M military transport aircraft, Eurofighter, Tiger and NH90 helicopters, Meteor and Aster missile programmes and the provision of telecommunications services by Paradigm Secure Communications using Skynet 5 satellites.

Furthermore, EADS is expanding its business boundaries to include Homeland Security, Airbus Military Derivatives, Large Defence Systems and Service Solutions. Additionally, EADS is continuously screening the market for targeted acquisition opportunities to better penetrate some priority markets.

7.1.2 Beyond Frontiers - Becoming a Global Industrial Group

EADS has successfully built a European Industrial Group with global export sales. In 2004, the approach was shifted from emphasis on pure exports to becoming a Global Industrial Group, extending local roots and branches – a key pre-requisite for EADS target markets in the USA, Asia and Russia. Global program partnerships and acquisitions are key levers to capture international markets, to broaden the technology portfolio and finally to benefit from cost advantages and to enhance natural currency hedging.

The acquisition of Australian Aerospace in 2001 stands as a successful application of the above model: Through the local industrial foothold, EADS created a competitive advantage for the Tiger Helicopter contract and supported the selection of the A330 Tanker Aircraft as well as of the NH90.

In the US, the goal is to firmly establish a presence as a valued corporate citizen in the world's largest Defence and Homeland Security market. EADS is in the midst of pursuing a four-pillar strategic approach: creating a US industrial presence (Eurocopter plant in Mississippi, Airbus Wichita design centre), developing transatlantic

co-operations (EuroHawk with Northrop Grumman), acquiring small/ mid sized Defence companies (Racal Instruments) and cooperating with US primes.

EADS' state-of-the-art product portfolio – in particular Helicopters, Transport and Tanker aircraft – is the basis of the attractive value proposition to both, customers and industrial partners, in the US. Currently EADS NA pursues several key campaigns: KC-330 air tanker, Utility Helicopter, Future Cargo Aircraft and MEADS.

China and India display the fastest developing economies worldwide, driving demand for air travel, and growing their governmental budgets. Future growth perspectives are concentrated in the Asian region, from where EADS targets to derive 30% of its revenues in 2015.

China: Besides Airbus' sourcing target of US$ 120 million by 2010 and a planned engineering centre, EADS envisages joint program development partnerships such as the recent agreement for the joint development and production of a new multipurpose helicopter with AVIC II. The Group is committed to long-term strategic partnerships with China's industry and government, in order to become their global partner of reference.

The development of Russia's economy is promising, and the Russian aerospace and defence industry is gaining new strength through restructuring and consolidation. EADS is, in a first step, participating in this process through cooperation with IRKUT. Joint new program developments, especially for export markets and technology partnerships, are at the core of the mutual interest shared by EADS and its Russian industrial partners.

7.1.3 Beyond Products - Delivering complete Systems and Service Solutions

The transformation process of U.S. and European defence forces and public safety agencies as well as the need for a more efficient use of defence budgets have changed the customers' demands. Therefore, EADS aims to amplify today's programmes' strength by emphasising its capabilities for lead system integration and service solutions.

EADS targets a clear prime position for new growth areas of Network Enabled Operations materializing in programs as Extended Air Defence, C4ISR**, Unmanned Aerial Vehicles and Military Space.

During 2004, major building bricks in this strategy were laid. The capture of the integrated border surveillance system contract for Romania is one example of customers' trust in EADS as Large System Integrator. The NATO transformation contract pursued together with US-based SAIC, and EADS' leading role in the NATO AGS team are other instances where the Systems and Solution business is gaining substance.

Next to systems, EADS has identified services as an important area to broaden programme leadership. Beyond platform in-fleet services such as the System Support Centre of Eurofighter or the new NH90 training centre in Germany, EADS intends to further develop an outsourced services offering. The successes of Paradigm, an EADS subsidiary, adding Portugal and NATO to its list of customers, underscore the Group's commitment to this new area of solutions comprising hardware products and increasingly services.

7.1.4 Beyond the Standard – Focus on Innovation and Technology

The broad portfolio of activities and technologies, and a sound combination of know-how and products enable EADS to develop new businesses such as complete homeland security systems, Galileo Navigation satellites or Military derivatives based on Airbus platforms.

Continuous innovation has been the basis of EADS' success in the past, and management is convinced that this will be even more important in the future. Innovation cycles are shortening and new competitors are emerging in all fields of EADS' business. To be leading the markets in the future, the Group will always need to be ahead with innovative solutions covering a broad spectrum of capabilities like new materials, manufacturing techniques, disruptive technologies, system integration, quality control, new products and solutions for its customers.

Compared to its peers, EADS has always devoted more resources to Research and Development, and it still does, both, in absolute numbers and as a percentage of sales. In 2004, EADS has spent around € 5 billion in Research & Development, of which half is self-financed. EADS management is of the firm opinion that this option is paying off, in terms of competitive position and resulting in return on investment. Shareholder value is founded on this long term view.

7.1.5 Beyond Expectations – Value Creation

It is one of EADS' top priorities beneath growing faster than the peers to increase economic performance, reaching a double digit EBIT* margin in the coming years.

** EBIT pre goodwill amortisation and exceptionals - see definition below in paragraph 5.1.2 page 15.*

*** Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance.*

The Group has already increased its EBIT* margin from 5.1% in 2001 to 7.7% in 2004, and is on track for further improvement. EADS intends to become an industry benchmark in cash generation and profitability in the mid term. Market leadership with global access and strong focus on innovation as well as portfolio expansion towards services and large system integration is meant to ensure long term stable and growing value creation within EADS.

The group-wide efforts in the area of global sourcing, and support its competitiveness and cost efficiency especially against the background of favourable budgetary conditions for U.S. players. To minimize down-side risk, an extensive use of risk sharing partners and appropriate financial instruments will continue.

Delivering on promises will, as in the past, be a key measure of EADS' success in the years to come.

7.2 Divisions Outlook

7.2.1 Airbus

Airbus has entered the commercial aviation upturn as market leader, and is poised to continue the growth of its deliveries. It currently has the most comprehensive and modern range of aircraft, placing it in prime position to benefit from the recovery.

Based on current firm orders, aircraft deliveries should increase from 320 in 2004 to more than 350 in 2005. Revenues should reflect this volume increase, but the effect will be moderated by Dollar weakness - should it persist. The proportion of Dollar revenues not hedged by financial instruments (although naturally hedged by Dollar denominated procurement) is converted to Euros at prevailing foreign exchange market rates.

Self-financed research and development is expected to continue at around the same level, mostly due to the continuing development of the A380 - the passenger and freighter versions are due for entry into service in 2006 and 2008 respectively. The new A350 project will only marginally impact the 2005 research and development budget, but is expected to increase in the following years.

Airbus 2005 EBIT* is anticipated to grow from 2004. It will benefit mainly from the increase in deliveries, and from the progressive benefits of the Route 06 cost savings plan. These factors should significantly over compensate for the negative impact of a slightly lower proportion of large aircraft deliveries, and for the effect of a weaker US Dollar from the few aircraft not yet hedged and the maturing of less favourable hedges.

** EBIT pre goodwill amortisation and exceptionals - see definition below in paragraph 5.1.2 page 15.*

7.2.2 Military Transport Aircraft

Looking forward, the Division's prospects appear increasingly bright. Investment in the development of the A400M and the A330 MRTT is beginningto be rewarded by large contracts stretching over the next 20 years, and current negotiations may lead to additional orders. Longer term opportunities for tanker aircraft include France, NATO and the United States.

Meanwhile, the EADS CASA Medium and Light aircraft and other Derivatives businesses, as well as Aerostructures, are continuing to sustain the performance of the division.

Revenues are expected to grow significantly in 2005, boosted mainly by the next steps of the A400M programme. Other businesses, including the beginning of the A330 MRTT Australian contract, Medium and Light aircraft deliveries, as well as the modernisation of Brazilian P3 Orion, are expected to contribute overall revenues slightly above the 2004 level.

Higher revenues and the early benefits of restructuring will feed through to increased EBIT* in 2005.

7.2.3 Aeronautics

Looking forward, the Aeronautics Division has a considerable medium-term momentum. There is a substantial order book and a number of major sales campaigns are under way. New military models such as the NH90 transport and Tiger combat helicopters are reaching the market. Meanwhile, aircraft models like regional turboprop aircraft (ATR-42/ATR-72) and general aircraft (TBM), or activities like aircraft conversion, are resisting to the competition. Furthermore, the volume of the many aerostructure activities sold by all Business Units are benefiting from the civil aerospace upturn.

Overall, revenues should grow significantly in 2005, mostly driven by Eurocopter. 2005 Aeronautics' EBIT* is expected to reflect the continuing improvement of Eurocopter performance, offset by the impact of a weaker U.S. dollar and by ongoing recovery programmes, namely in the Sogerma business.

7.2.4 Defence and Security Systems ("DS")

In 2005, management will continue the process of strengthening the Division's Lead Systems Integration capabilities through sharpening the focus on core businesses, and fostering further efficiencies.

Longer-term opportunities are fuelled by the important programmes that are expected to progress during the year. EuroHawk and NATO AGS are awaiting design and development, and risk reduction study contracts, while German Bundestag approval of German participation in MEADS should clear the way for the design and development contract. Advances in the EuroMALE programme are also expected. Additionally, DS looks forward to growing its Homeland Security business.

Current solid order-book offers good visibility for future revenues of Missiles and Military Aircraft businesses. Overall, the 2005 revenues of the Division could decline primarly due to the recent disposal of Multicom and Enterprise Telephony activities.

2005 EBIT* will reflect continuing improvement of recurring business profitability, even considering further DS investments in strategic projects and restructuring plans to foster efficiencies. 2005 EBIT* will not benefit from the non-recurring positive effect of Euro 106 million, which had been included in 2004 EBIT* due to the release of a provision for litigation.

7.2.5 Space

EADS Space has adapted to the changing markets in which it is operating. While restructuring its own operations, it has also played a key role in the restructuring of Europe's entire space industry, and has offered new services to its customers in the field of secured communications.
It has emerged as the continent's leading space group, with a critical role to play in Europe's future space ambitions.

Despite a difficult environment (€/$ rate, gloomy telecommunication satellite market, severe limitations of national and European agencies), the current order book supports a moderate increase in 2005 revenues. Moreover, EADS Space - fully re-engineered and operational - is now poised for progressive expansion in its EBIT* margin.

8 Presentation of the resolutions proposed by the Board

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

** EBIT pre goodwill amortisation and exceptionals - see definition below in paragraph 5.1.2 page 15.*

First resolution

We propose that effective the end of this AGM, the Board be reconstituted to replace the current Board to consist of the following persons as the new Members of the Board and for a term of five (5) years ending at the close of the AGM which shall be held in the year 2010:

Manfred Bischoff and Arnaud Lagardère (to be designated as Chairmen), Thomas Enders and Noël Forgeard (to be designated as Chief Executive Officers), Jean-Paul Gut and Hans Peter Ring as Executive Directors, Juan Manuel Eguiagaray Ucelay, Louis Gallois and Rüdiger Grube as Non-Executive Directors and François David and Michael Rogowski as Independent Directors.

Dr. **Manfred Bischoff** joined Daimler-Benz AG in 1976. After different assignments in the company, Dr. Bischoff was appointed as the first Chief Financial Officer of Dasa AG – one of the three EADS founding companies – in 1989 and became President and Chief Executive Officer of Dasa AG from 1995 until 2000. Dr. Bischoff was also a member of the Board of Management of DaimlerChrysler from 1995 until end of 2003, responsible for Aerospace & Industrial Businesses. He is now DaimlerChrysler Delegate for Aerospace. He holds a master's degree and a PhD (Dr. rer. pol.) in Economics from the University of Heidelberg.

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 United States. 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 Paris Dauphine.

Dr. **Thomas Enders** joined MBB/Dasa AG in 1991, after various posts in international research institutes, the German Parliament and the Planning Staff of the German

Minister of Defense. After several years in the company's marketing sector, he became Corporate Secretary of Dasa AG in 1995. From 1996, he was in charge of Corporate Strategy & Technology and since 2000, he has been the head of Defence and Security Systems division. Mr. Enders holds degrees from the University of Bonn and UCLA, California.

Mr. **Noël Forgeard** joined Matra in 1987 as Senior Vice President of the Defense and Space activities. In 1992, he was appointed Managing Director of Lagardère and Chief Executive Officer of Matra Hautes Technologies. He joined Airbus Industrie as Managing Director in 1998 and became the first President and Chief Executive Officer of the Airbus integrated company in 2001. He graduated from the École Polytechnique and the École des Mines in Paris.

Mr. **Jean-Paul Gut** is head of EADS International and prior to July 2000 he was Executive Chairman of Aerospatiale Matra Lagardère International and Group Managing Director of Defence and Space Transport at Aerospatiale Matra. In March 1998, Jean-Paul Gut was named Director of the Lagardere Group Board of Management, responsible for International Operations and the High Technology sector. He graduated from the Institut d'Études Politiques of Paris (IEP), with a master's degree in Economics.

Mr. **Hans Peter Ring** began his career at MBB in 1977. In 1987 he was appointed Head of Controlling of the company's Missiles business. Subsequently, he was named Head of Controlling of the Aviation and Defense Division of Dasa AG. From 1992-1995, he was Chief Financial Officer and member of the Board of Dornier Luftfahrt, a Dasa AG subsidiary. In 1996, he was appointed Senior Vice President of Controlling of Dasa and subsequently of EADS. Hans Peter Ring was appointed Chief Financial Officer of EADS in 2002. Mr. Hans Peter Ring has a degree in business administration.

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.

Mr. **Louis Gallois** has been Chairman of SNCF since 1996. From 1972 he worked in various posts for the Ministry of Economy and Finance, the Ministry of Research and Industry and the Ministry of Defense. In 1989 he was nominated Chairman and Chief Executive Officer of SNECMA and subsequently, in 1992 Chairman and Chief Executive Officer of Aerospatiale. He graduated from the École des Hautes Etudes Commerciales (HEC) in Economic sciences and is an alumnus of the École Nationale d'Administration (ENA).

Dr. **Rüdiger Grube** is member of the Board of Management of DaimlerChrysler AG in charge of corporate development since 2002 and additionally profit and loss responsible for Greater China Business since 2004. He started his career in 1989 at Messerschmitt-Bölkow-Blohm (MBB). In 1995, he became Director of Corporate Planning and Technology of Deutsche Aerospace AG. In 1996, he was appointed Senior Vice President and Head of Corporate Strategy at Daimler-Benz AG and subsequently of DaimlerChrysler AG. In 2000, he became Senior Vice President for Corporate Development. Mr. Grube holds an engineers' degree in aircraft construction and engineering from the University in Hamburg and a doctorate in industrial science.

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.

Dr. **Michael Rogowski** has been Chairman of the Supervisory Board of J.M. Voith AG since 2000 and was also the President of the Association of German Industry from 2000 to 2004. Dr. Michael Rogowski joined J.M.Voith GmbH in 1974, where he was responsible for human resources as well as materials management. In 1982 he took over responsibility for the power transmission engineering division and was named Chairman of the Management Board of J.M. Voith GmbH in 1986 and then J.M. Voith AG in 1997. He studied economical engineering and earned a doctorate at the University of Karslruhe in 1969.

Second resolution

We propose that this AGM accepts and approves this Board Report including, in order to comply with Dutch law and the recommendations of the Dutch Code, the chapter on Corporate Governance, the policy on dividends, the proposed policy for the remuneration and the arrangements for the grant of stock options and rights to subscribe for shares for the Members of the Board as described in this Board Report.

Third and fourth resolutions

We propose that this AGM approves the audited statutory accounts (Dutch GAAP) for 2004 and resolves that the net profit of € 487 million, as shown in the audited statutory income statement (Dutch GAAP) for the financial year 2004, shall be added to retained earnings and that a payment of a gross amount of € 0.50 per share shall be made to the shareholders from distributable reserves on June 8, 2005.

Fifth resolution

We recommend that this AGM discharges the members of the Board from their responsibility for the conduct of the Company's business with respect to the financial year 2004.

Sixth resolution

We recommend that the Company's auditors for the financial year 2005 should be Ernst & Young Accountants whose registered office is at Drentestraat 20, 1083 HK Amsterdam, the Netherlands, and KPMG Accountants N.V. whose registered office is at K.P. van der Mandelelaan 41-43, 3062 MB Rotterdam, The Netherlands. Our proposal is thus to renew the same auditors as for the past financial year; those auditors having given assurance to the EADS Audit Committee on their respective qualifications, performance and independence.

Seventh resolution

We recommend that this AGM approve the amendment of the Company's Articles of Association in order to comply with recent changes in Dutch company law. Current Article 23 paragraph 3 of the Company's Articles of Association provides that a request may be made by one or more shareholders collectively representing at least three percent (3%) of the issued share capital to put items on the agenda for the AGM of shareholders. However, a recent change of Dutch law has reduced such percentage to one percent (1%) and provides for an alternative representation of shareholders on the basis of a market value of fifty million Euro (€ 50 million).

Eighth resolution

We propose that this AGM approves the renewal of the authorisation given to the Board to issue shares representing up to 1% of the Company's authorised share capital for a period expiring at the AGM to be held in 2006, including specific powers to approve SOP as well as ESOP plans, since the previous authorisation expires at the end of this AGM.

As done in the previous years, the Company anticipates a possible implementation of a SOP in 2005. Such a plan would have to be formally approved by the Board.

The Company also anticipates implementing an ESOP in 2005. It would again have to be formally approved by the Board.

Ninth resolution

We propose that this AGM approves the cancellation of the shares repurchased by the Company up to a maximum amount of 1,336,358 shares, to compensate the dilution effect resulting from the issuance of shares for the purpose of the ESOP 2004 and the exercise of stock options from the SOPs 2000 and 2002 in 2004.

Tenth resolution

We propose that this AGM approves the renewal of the authorisation to the Board to repurchase shares of the Company, for a new 18-month period 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 and at a price not less than the nominal value and not more than the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out. The above authorisation will supersede and replace the authorisation granted by the AGM on May 6, 2004.

The resolutions submitted to your vote strictly conform to the terms of this Board Report and are in our opinion in the interests of the Company and the development of its activities.

Consequently, we invite you to adopt the resolutions and thank you for the trust you have repeatedly shown us at the key stages since the creation of EADS.

The Board of Directors

EADS N.V. Consolidated Financial Statements (IFRS)

1 Consolidated Income Statements (IFRS)

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

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

2 Consolidated Balance Sheets (IFRS)

(in millions of €)	Note	At December 31 2004	2003
Assets			
Intangible assets	11	10,008	9,694
Property, plant and equipment	12	12,905	11,448
Investments in associates	13	1,738	1,640
Other investments and long-term financial assets	13	2,352	2,489
Fixed assets		**27,003**	**25,271**
Inventories, net of advances received	14	3,075	3,279
Trade receivables	15	4,406	4,001
Other receivables and other assets	16	11,105	10,280
Securities	17	466	468
Cash and cash equivalents		8,718	7,404
Non-fixed assets		**27,770**	**25,432**
Deferred taxes	10	**2,543**	**2,724**
Prepaid expenses		**951**	**951**
Total assets		**58,267**	**54,378**
Liabilities and shareholders' equity			
Capital stock		810	813
Reserves		10,254	9,589
Accumulated other comprehensive income		6,086	5,934
Treasury shares		(177)	(187)
Shareholders' equity	18	**16,973**	**16,149**
Minority interests		**2,370**	**2,179**
Provisions	19	**8,573**	**8,726**
Financial liabilities	20	5,126	4,767
Trade liabilities	21	5,860	5,117
Other liabilities	21	13,240	11,318
Liabilities		**24,226**	**21,202**
Deferred taxes	10	**4,134**	**3,664**
Deferred income	22	**1,991**	**2,458**
Total liabilities and shareholders' equity		**58,267**	**54,378**

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

3 Consolidated Statements of Cash Flows (IFRS)

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

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

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

The accompanying notes are an integral part of these Consolidated Financial Statements. For details, see Note 23, "Consolidated Statement of Cash Flows".

4 Consolidated Statements of Changes in Shareholders' Equity (IFRS)

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

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

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1 The Company

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

2 Summary of Significant Accounting Policies

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

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

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 January 1, 2004 mainly due to the abolishment of goodwill amortisation. Consequently, EADS changed its accounting policies regarding the accounting for impairment testing, intangible assets and business combinations with an agreement date after December 31, 2003. This has been done prospectively in accordance with transitional provisions required by IFRS 3, IAS 36 and IAS 38. Until December 31, 2003, goodwill was amortized on a straight line basis over a period ranging from five to 20 years and assessed for an indication of impairment at each balance sheet date.

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

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

Improvements Project:

IAS 1 Presentation of Financial Statements

IAS 2 Inventories

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10 Events after Balance Sheet Date

IAS 16 Property, Plant and Equipment

IAS 17 Leases

IAS 21 The Effects of Changes in Foreign Exchange Rates

IAS 24 Related Party Disclosure

IAS 27 Consolidated and Separate Financial Statements

IAS 28 Investments in Associates

IAS 31 Interests in Joint Ventures

IAS 33 Earnings per Share

IAS 40 Investment Property

New Standards:

IFRS 2 Share-based Payment

IFRS 4 Insurance Contracts

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

IFRS 6 Exploration for and Evaluation of Mineral Resources

New Interpretations:

IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities

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

IFRIC 3 Emission Rights

IFRIC 4 Determining whether an Arrangement contains a Lease

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

Amendments / Revisions:

IAS 19 Employee Benefits
Amendment (December 2004): Actuarial Gains and Losses, Group Plans and Disclosure

IAS 32 Financial Instruments: Disclosure and Presentation
Revision (December 2003)
Amendment (March 2004)

IAS 39 Financial Instruments: Recognition and Measurement:
Revision (December 2003)
Amendment (March 2004): Fair Value Hedge Accounting for Portfolio Hedge of Interest Rate Risk
Amendment (December 2004): Transition and Initial Recognition of Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

Foreign Currency Translation – The assets and liabilities of foreign entities, where the reporting currency is other than Euro, are translated using period-end exchange rates, while the statements of income are translated using average exchange rates during the period, approximating the foreign exchange rate at the dates of the transactions. All resulting translation differences are included as a separate component of shareholders' equity ("Accumulated other comprehensive income" or "AOCI").

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

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

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

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

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

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

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

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

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

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

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

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

i) Current tax is the amount of income taxes payable or recoverable in a period. Current income taxes are

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The fair value of quoted investments is based on current market prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes

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

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

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

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

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

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

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

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

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

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

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

ii) **Cash Flow Hedge:** The Group applies cash flow hedge accounting generally to foreign currency derivative contracts on future sales as well as to certain interest rate swaps. Changes in fair value of the hedging instruments related to the effective part of the hedge are reported in a separate component of shareholder's equity AOCI, net of applicable income taxes and recognized in the Consolidated Income Statement in conjunction with the result of the underlying hedged transaction, when realised. Any hedge ineffectiveness is immediately recorded in "Net income (loss)". If hedged transactions are cancelled or postponed for more than a relatively short period of time, gains and losses on the hedging instrument that were previously recorded in equity are generally recognized in profit or loss.

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

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

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

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

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

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

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

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

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

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

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

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminate the employment of

current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

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

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

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

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

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

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

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

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

3 Scope of consolidation

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

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

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

4 Acquisitions and disposals

a) Acquisitions

On October 4, 2004, the Group acquired RIG Holdings, Inc., Delaware / USA together with its subsidiaries Racal Instruments US and Racal Instruments Group Ltd. from RIG Holdings, LP, Delaware for an amount of 105 M US$ cash and debt free. EADS has agreed with the sellers to an earn out formula whereby the Group pays up to additional 25 M US$ for guaranteed future order intake until June 30, 2005. The impact of the acquisition to the Consolidated Financial Statements is not material. The initial accounting for this business combination is determined on a provisional basis.

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

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

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

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

b) Disposals

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

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

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

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

5 Segment Reporting

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

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

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

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

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

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

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

(in millions of €)	Airbus	Military Transport	Aero-nautics	Defence & Security Systems	Space	HQ/ Conso.	Conso-lidated
Total revenues	19,048	934	3,803	5,165	2,424	81	31,455
Internal revenues	(363)	(236)	(372)	(319)	(10)	(22)	(1,322)
Revenues	**18,685**	**698**	**3,431**	**4,846**	**2,414**	**59**	**30,133**
EBIT pre goodwill amortisation and exceptionals (see definition below)	1,353	30	217	171	(400)	172	1,543
Income from operating activities	809	15	203	19	(425)	(60)	561
Income from associates	5	0	0	(6)	0	225	224
Income/ (loss) from other investments, interest and other financial result							(93)
Income taxes							(474)
Profit from ordinary activities							218
Minority interest							(66)
Net income							152

Other Information

Identifiable segment assets (incl. goodwill) (1)	29,290	930	3,978	8,743	3,717	4,664	51,322
Goodwill	6,342	0	111	2,321	545	53	9,372
Investments in associates	0	0	0	7	0	1,633	1,640
Segment liabilities (1)	17,501	675	2,948	6,670	3,544	715	32,053
Capital expenditures	2,027	28	142	207	473	74	2,951
Depreciation, amortisation	1,628	31	136	287	134	159	2,375
Research and development expenses	1,819	23	62	223	62	0	2,189

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

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

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

c) EBIT pre goodwill amortisation and exceptionals

EADS uses EBIT pre goodwill amortisation and exceptionals as a key indicator of its economic performance. The term "exceptionals" refers to such items as amortisation 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 amortisation and exceptionals is treated by management as a key indicator to measure the segments' economic performances.

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

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

As a consequence, operations of former Airbus GIE are from January 1, 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 January 1, 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 December 31, 2003, booked for balance sheet items that relate to future transactions as from January 1, 2004, is gradually released according to realization of such operations, namely aircraft deliveries.

d) Revenues by destination

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

e) Capital expenditures

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

6 Revenues

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

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

Detail of **Revenues**:

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

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

7 Functional costs and other expenses

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

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

Selling, administrative and other expenses are comprised of:

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

Personnel expenses are:

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

8 Other income

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

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

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

9 Financial result

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

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

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

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

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

10 Income taxes

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

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

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

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

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

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

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

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

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

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

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

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

Roll forward of deferred taxes:

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

The deferred tax recognized directly in AOCI is as follows:

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

11 Intangible assets

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

Cost

(in millions of €)	Balance at Dec 31, 2003	Elimination of accumulated amortisation	Adjusted balance at January 1, 2004	Exchange differ-ences	Additions	Changes in consolidation scope	Re-classifi-cation	Disposals	Balance Dec 31, 2004
Goodwill	12,710	(2,198)	10,512	(1)	83	13	0	0	10,607
Other intangible assets	650	0	650	(2)	364	6	6	(15)	1,009
Total	**13,360**	**(2,198)**	**11,162**	**(3)**	**447**	**19**	**6**	**(15)**	**11,616**

Amortisation / Impairment

(in millions of €)	Balance at Dec 31, 2003	Elimination of accumulated amortisation	Adjusted balance at January 1, 2004	Exchange differ-ences	Additions	Changes in consolidation scope	Re-classifi-cation	Disposals	Balance Dec 31, 2004
Goodwill	(3,338)	2,198	(1,140)	(2)	0	(5)	0	0	(1,147)
Other intangible assets	(328)	0	(328)	0	(137)	(1)	(3)	8	(461)
Total	**(3,666)**	**2,198**	**(1,468)**	**(2)**	**(137)**	**(6)**	**(3)**	**8**	**(1,608)**

Net book value

(in millions of €)	Balance at Dec 31, 2003	Elimination of accumulated amortisation	Adjusted balance at January 1, 2004	Exchange differ-ences	Additions	Changes in consolidation scope	Re-classifi-cation	Disposals	Balance Dec 31, 2004
Goodwill	9,372	0	9,372	(3)	83	8	0	0	9,460
Other intangible assets	322	0	322	(2)	227	5	3	(7)	548
Total	**9,694**	**0**	**9,694**	**(5)**	**310**	**13**	**3**	**(7)**	**10,008**

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

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

Goodwill impairment tests

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

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

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

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

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

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

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

The order book of the Space division as of December 31, 2004 (including satellites, launchers and ballistic missile) supports the moderate revenues increase which is assumed for this division over the operative planning period. The current development of the Skynet 5 satellites is weighing on EADS Space cash flow until these spacecraft are launched and operated with their full capability by 2008 to generate a ramped up level of revenues from the UK MoD. The Space restructuring program SARA successfully delivere EBIT turnaround in 2004 and is expected to lay the ground for further profits.

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

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

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

Development Costs

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

12 Property, plant and equipment

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

Cost

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

Depreciation

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

Net book value

(in millions of €)	Balance at Jan 1, 2004	Exchange differences	Additions	Changes in consolidation scope	Reclassi-fication	Disposals	Balance at Dec 31, 2004
Land, leasehold improvements and buildings including buildings on land owned by others	3,130	(2)	1	11	390	(7)	3,523
Technical equipment and machinery	2,615	(49)	(107)	3	296	(10)	2,748
Other equipment, factory and office equipment	3,431	(126)	357	2	46	(268)	3,442
Advance payments relating to plant and equipment as well as construction in progress	2,272	(15)	1,681	0	(732)	(14)	3,192
Total	**11,448**	**(192)**	**1,932**	**16**	**(0)**	**(299)**	**12,905**

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

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

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

The "aircraft under operating lease" include:

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

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

(in millions of €)	**2004**
not later than 2005	156
later than 2005 and not later than 2009	372
later than 2009	219
Total	**747**

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

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

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

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

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

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

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

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

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

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

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

The calculation of the net book value is:

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

Finance leases receivables from aircraft financing are as follows:

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

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

(in millions of €)	
not later than 2005	177
later than 2005 and not later than 2009	358
later than 2009	764
Total	**1,299**

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

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

14 Inventories, net of advances received

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

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

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

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

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

15 Trade receivables

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

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

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

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

16 Other receivables and other assets

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

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

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

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

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

17 Securities

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

18 Shareholders' equity

The change of shareholders' equity is provided in the Consolidated Statements of Changes in Shareholders' Equity. The following table shows the development of the number of shares outstanding:

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

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

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

On May 6, 2004, the Shareholders' General Meeting of EADS renewed the authorisation 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 October 8, 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 July 20, 2004, the Chief Executive Officers decided to cancel 5,686,682 treasury shares.

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

On May 6, 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 June 4, 2004.

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

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

19 Provisions

Provisions are comprised of the following:

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

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

a) Provisions for deferred compensation

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

b) Provisions for retirement plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

c) Financial instruments

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

d) Other provisions

Movements in provisions during the year were as follows:

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

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

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

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

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

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

20 Financial liabilities

In 2004, the EIB (European Investment Bank) granted a long-term loan to EADS in the amount of 309 M € bearing an fixed interest rate of 5,1%. Included in financial liabilities are, 546 M € which were drawn under a long-term bank facility for the funding of Skynet V with an interest of 3 M-Libor, swapped into a fixed interest rate of 4.8%. EADS raised in 2003 1.5 bn € through two Eurobond issues under its EMTN (Euro Medium Term Note) program. The first issue of 1bn € carries a coupon of 4.625% which was swapped into variable rate of 3 M-Euribor + 1.02% and subsequently capped to 4%. The second issue of 0.5bn € maturing in 2018 carries a coupon of 5.5%.

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

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

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

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

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

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

21 Trade and other liabilities

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

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

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

22 Deferred income

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

23 Consolidated Statement of Cash Flows

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

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

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

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

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

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

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

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

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

24 Litigation and claims

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

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

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

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

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

EADS recognises recognizes provisions for litigation and claims when (i) it has a present obligation from legal actions, governmental investigations, proceedings and other claims resulting from past events that are pending or may be instituted or asserted in the future against the Group, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle such obligation and (iii) a reliable estimate of the amount of such obligation can be made. For the amount provided for risk due to litigations and claims, see Note 19 (d): "Other provisions".

25 Commitments and contingencies

Commitments and contingent liabilities

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

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

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

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

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

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

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

Detail of provisions / accumulated impairments are as follows:

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

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

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

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

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

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

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

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

(in millions of €)	
not later than 2005	97
later than 2005 and not later than 2009	296
later than 2009	583
Total	**976**

26 Information about financial instruments

a) Financial risk management

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

Market risk

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

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

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

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

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

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

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

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

Liquidity risk

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

Credit risk

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

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

b) Notional amounts

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

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

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

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

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

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

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

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

c) Fair value of financial instruments

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

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

December 31, 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

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

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

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

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

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

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

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

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

The methodologies used are as follows :

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

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

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

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

27 Stock-based compensation

a) Stock Option Plans

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

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

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

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

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

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

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

Third Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
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**	**0**	**(328,500)**	**7,490,225**

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

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

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

b) Employee Stock Ownership Plan (ESOP)

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

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

28 Related party transactions

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

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

29 Investment property

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

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

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

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

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

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

30 Interest in Joint Ventures

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

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

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

31 Earnings Per Share

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

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

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

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

32 Number of Employees

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

33 Events after the balance sheet date

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

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

Auditors' report

Introduction

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

Scope

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the IFRS consolidated financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the IFRS consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

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

Rotterdam, March 8, 2005

KPMG Accountants N.V.

Amsterdam, March 8, 2005

Ernst & Young Accountants

Appendix: Information on principal investments

Appendix: Information on principal investments Consolidation Scope

2004	%	2003	%	Company	Head office
Airbus					
F	80,00	F	80,00	128829 Canada Inc.	Canada
F	80,00	F	80,00	A 320 Financing Limited	Ireland
F	80,00	F	80,00	AA Credit Aircraft Leasing Limited	Isle Of Man
F	80,00	F	80,00	AFC USA 1 Inc.	USA
F	80,00	F	80,00	AFS (Cayman) Ltd	Ireland
F	80,00	F	80,00	AFS Cayman 11 Limited	Cayman Isle
F	80,00	F	80,00	AFS Cayman Aerospace Limited	Ireland
F	80,00	F	80,00	AI leasing Inc.	U.S.A.
F	80,00	F	80,00	AI Participations S.A.R.L.	Blagnac (France)
F	80,00	F	80,00	AIFI LLC	Isle Of Man
F	80,00	F	80,00	AIFS (Cayman) Ltd	Cayman Isle
F	80,00	F	80,00	AIFS Cayman Liquidity Ltd	Cayman Isle
F	80,00	F	80,00	AIFS Leasing Company Limited	Ireland
F	80,00	F	80,00	AINA Inc.	U.S.A.
F	80,00	F	80,00	Airbus China Limited	Hong-Kong
F	80,00	F	80,00	Airbus Deutschland GmbH	Hamburg (Germany)
F	80,00	F	80,00	Airbus Espana SL	Madrid (Spain)
F	80,00	F	80,00	Airbus Finance Company Ltd	Dublin (Ireland)
F	80,00	F	80,00	Airbus Financial Service Holdings Ltd	Ireland
F	80,00	F	80,00	Airbus Financial Service Ltd	Ireland
F	80,00	F	80,00	Airbus France SAS	Toulouse (France)
F	80,00	F	80,00	Airbus Holding S.A.	France
F	80,00	F	80,00	Airbus Industrie Financial Service Holdings B.V.	Netherlands
		F	80,00	Airbus Industrie G.I.E.	Blagnac (France)
F	80,00	F	80,00	Airbus Invest	Toulouse (France)
F	80,00	F	80,00	Airbus North America engineering (in 2003: Wichita)	U.S.A.
F	80,00	F	80,00	Airbus North American Holdings Inc. (AINA)	U.S.A.
F	80,00	F	80,00	Airbus SAS	Toulouse (France)
F	80,00	F	80,00	Airbus Service Company Inc. (ASCO)	U.S.A.
F	80,00	F	80,00	Airbus Transport International S.N.C. (ATI)	Blagnac (France)
F	80,00	F	80,00	Airbus UK Limited	UK
F	80,00	F	80,00	Aircabin GmbH	Laupheim (Germany)
E	16,00	E	16,00	Alexandra Bail G.I.E.	France
F	80,00	F	80,00	Avaio Aerospace Limited	Ireland
F	80,00	F	80,00	Avaio Aviation Limited	Ireland
F	80,00	F	80,00	Avaio International Limited	Ireland
F	80,00	F	80,00	Avaio Leasing Limited	Ireland

F: Fully consolidated P: Proportionate E: Equity method

Appendix: Information on principal investments

2004	%	2003	%	Company	Head office
F	80,00	F	80,00	Avaio Limited	Isle Of Man
F	80,00	F	80,00	Aviateur Aerospace Limited	Ireland
F	80,00	F	80,00	Aviateur Eastern Limited	Ireland
F	80,00	F	80,00	Aviateur Finance Limited	Ireland
F	80,00	F	80,00	Aviateur International Limited	Ireland
F	80,00	F	80,00	Aviateur Leasing Limited	Ireland
F	80,00	F	80,00	Aviateur Limited	Ireland
E	26,40			Avion Capital Limited	Ireland
F	80,00	F	80,00	Avion Finance Limited	Ireland
F	80,00	F	80,00	AVSA Canada Inc.	Canada
F	80,00	F	80,00	AVSA S.A.R.L.	Blagnac (France)
F	80,00	F	80,00	KID-Systeme GmbH	Buxtehude (Germany)
F	80,00	F	80,00	Norbus	U.S.A.
F	80,00	F	80,00	Star Real Estate SAS	Boulogne (France)
F	80,00	F	80,00	Total Airline Service Company	United Arab Emirates

Additionally consolidated are 45 SPEs.

Defence & Security Systems

2004	%	2003	%	Company	Head office
F	100,00	F	100,00	Aircraft Services Lemwerder GmbH	Lemwerder (Germany)
P	37,50	P	37,50	ALKAN	Valenton (France)
F	100,00	F	100,00	Apsys	France
F	99,99	F	99,99	ARC	CA, USA
F	55,00	F	55,00	Aviation Defense Service S.A.	Saint-Gilles (France)
P	50,00	P	50,00	Bayern-Chemie Gesellschaft für flugchemische Antriebe mbH	Aschau/Inn (Germany)
F	100,00	F	100,00	Cogent Defence & Security Networks	Newport, Wales (UK)
F	100,00	F	100,00	Dornier Flugzeugwerft GmbH	Manching (Germany)
F	93,58	F	93,58	Dornier Services GmbH	Friedrichshafen (Germany)
F	93,58	F	93,58	Dornier Verteidigung und Zivile Systeme	Friedrichshafen (Germany)
F	100,00	F	100,00	EADS CASA Military Aircraft	Madrid (Spain)
F	100,00	F	100,00	EADS Defence & Security Systems S.A.	Velizy (France)
F	100,00	F	100,00	EADS Deutschland GmbH Military Aircraft TB 51	Munich (Germany)
F	100,00	F	100,00	EADS Deutschland GmbH VA (Restaktivitäten)	Unterschleißheim (Germany)
F	100,00	F	100,00	EADS Deutschland GmbH Verteidigung und Zivile Systeme	Ulm (Germany)
F	100,00	F	100,00	EADS Operations & Services UK	UK
F	100,00	F	100,00	EADS Services	Boulogne (France)
F	100,00	F	100,00	EADS System & Defence Electronics Belgium	Oostkamp (Belgium)
F	100,00	F	100,00	EADS Telecom Benelux	Bruxelles (Belgium)
F	100,00	F	100,00	EADS Telecom Danmark	Copenhague (Denmark)
F	100,00	F	100,00	EADS Telecom Deutschland GmbH	Ulm (Germany)
F	100,00	F	100,00	EADS Telecom Deutschland GmbH	Untershleissheim (Germany)
F	100,00	F	100,00	EADS Telecom Espana	Madrid (Spain)

F: Fully consolidated P: Proportionate E: Equity method

2004	%	2003	%	Company	Head office
F	100,00	F	100,00	EADS Telecom Federal Systems Division	San Antonio, TX, USA
F	100,00	F	100,00	EADS Telecom Inc.	Dallas, Texas (USA)
F	100,00	F	100,00	EADS Telecom Mexico S.A. de CV	Mexico DF (Mexico)
F	98,95	F	98,95	EADS Telecom North America Inc.	Dallas, Texas (USA)
F	100,00	F	100,00	EADS Telecom SAS	Bois d'Arcy (France)
F	100,00	F	100,00	EADS Telecom Spa	Milan (Italy)
F	100,00	F	100,00	EADS Telecom UK Ltd	Newport, Wales (UK)
F	100,00	F	100,00	EUROBRIDGE Mobile Brücken GmbH	Friedrichshafen (Germany)
F	100,00	F	100,00	Ewation GmbH	Ulm (Germany)
F	100,00	F	100,00	Fairchild Controls Corporation	Frederick Maryland (USA)
F	100,00	F	100,00	FmElo Elektronik- und Luftfahrtgeräte GmbH	Ulm (Germany)
P	50,00	P	50,00	Forges de Zeebrugge S.A.	Herstal-Liege (Belgium)
F	100,00	F	100,00	Germantown Holding Company	Frederick Maryland (USA)
F	100,00	F	100,00	Gesellschaft für Flugzieldarstellung mbH	Germany
F	100,00	F	100,00	Hagenuk Marinekommunikation GmbH	Flintbek (Germany)
F	98,95	F	98,95	Intecom Holding ULC	Dallas, Texas (USA)
F	100,00	F	100,00	International Test & Services	Velizy (France)
F	81,25	F	81,25	LFK – Lenkflugkörpersysteme GmbH	Unterschleißheim (Germany)
F	100,00	F	100,00	LFK Objekt Nabern GmbH & Co.KG	Unterschleißheim (Germany)
F	100,00	F	100,00	M.C.N. SAT HOLDING	Velizy (France)
F	100,00	F	100,00	M.P. 13	Paris (France)
P	50,00	P	50,00	Maîtrise d'Oeuvre SyStème	Issy-les-Moulineaux (France)
F	100,00	F	100,00	Manhattan Beach Holdings Co.	Frederick Maryland (USA)
P	37,50	P	37,50	Marconi Overside Ldt.	Chelmsford (UK)
F	100,00	F	100,00	Matra Aerospace Inc.	Frederick Maryland (USA)
F	100,00	F	100,00	Matra Défense	Velizy (France)
P	37,50	P	37,50	Matra Electronique	La Croix Saint-Ouen (France)
F	100,00	F	100,00	Matra Holding GmbH	Frankfurt (Germany)
P	37,50	P	37,50	MBDA France	Velizy (France)
P	37,50	P	37,50	MBDA Holding	Velizy (France)
P	37,50	P	37,50	MBDA Inc.	Westlack, CA (USA)
P	37,50	P	37,50	MBDA Italy SpA	Roma (Italy)
P	37,50	P	37,50	MBDA M S.A.	Chatillon-sur-Bagneux (France)
P	37,50	P	37,50	MBDA SAS	Velizy (France)
P	37,50	P	37,50	MBDA Services	Velizy (France)
P	37,50	P	37,50	MBDA Treasury	Jersey (UK)
P	37,50	P	37,50	MBDA UK Ltd	Stevenage, Herts (UK)
		F	100,00	MULTICOMS	Vélizy (France)
F	100,00	F	100,00	Operations Services Germany	Unterschleißheim (Germany)

F: Fully consolidated P: Proportionate E: Equity method

2004	%	2003	%	Company	Head office
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	F	98,95	Pyderion Contact Technologies Inc.	Dallas, Texas (USA)
F	100,00			Racal Instruments US	San Antonio, Texas (USA)
F	100,00			Racal Instruments UK	Wimborne, Dorset, UK
E	33,00	E	33,00	Reutech Radar Systems (Pty) Ltd	Stellenbosch (South Africa)
E	18,75	E	18,75	Roxel	Saint-Médard-en-Jalles (France)
F	100,00	F	100,00	Sycomore S.A.	Boulogne-Billancourt (France)
F	67,00	F	67,00	TAURUS Systems GmbH	Schrobenhausen (Germany)
P	50,00	P	50,00	TDA – Armements SAS	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 (in 2003: EADS Radio Communication Systems GmbH & Co. KG)	Ulm, Germany
F	100,00	F	100,00	TYX Corp.	Reston, VA, USA
E	50,00	E	50,00	United Monolithic Semiconductors France SAS	Orsay (France)
E	50,00	E	50,00	United Monolithic Semiconductors Holding	Orsay (France)
E	50,00	E	50,00	United Monolithics Semiconductor GmbH	Ulm (Germany)
F	90,00			UTE CASA A.I.S.A.	Madrid (Spain)

Space

2004	%	2003	%	Company	Head office
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	F	68,40	EADS Dornier Raumfahrt Holding GmbH	Munich (Germany)
F	100,00	F	100,00	EADS Space B.V.	Amsterdam (Netherlands)
F	100,00			EADS Space Management & Services SAS	Paris (France)
F	100,00	F	100,00	EADS Space Transportation (Holding) SAS	Paris (France)
F	100,00	F	100,00	EADS Space Transportation GmbH	Munich (Germany)
F	100,00	F	100,00	EADS Space Transportation N.V.	Amsterdam (Netherlands)

F: Fully consolidated P: Proportionate E: Equity method

2004	%	2003	%	Company	Head office
F	100,00	F	100,00	EADS Space Transportation SAS	Les Muraux (France)
F	100,00	F	100,00	Global DASA LLC	New York (USA)
F	100,00			Infoterra GmbH	Friedrichshafen (Germany)
F	100,00	F	100,00	Infoterra Ltd	Southwood (UK)
F	100,00	F	100,00	Matra Marconi Space UK Ltd	Stevenage (UK)
F	100,00	F	100,00	MMS Systems Ltd	Stevenage (UK)
E	47,40	E	47,40	Nahuelsat S.A.	Buenos Aires (Argentina)
F	100,00	F	100,00	Paradigm Secure Communications (Holding) Ltd	Stevenage (UK)
F	100,00	F	100,00	Paradigm Secure Communications Ltd	Stevenage (UK)
F	100,00	F	100,00	Paradigm Services Ltd	Stevenage (UK)
F	100,00	F	100,00	TESAT-Spacecom Geschäftsführung GmbH	Backnang (Germany)
F	100,00	F	100,00	TESAT-Spacecom GmbH & Co. KG	Backnang (Germany)

Military Transport Aircraft

2004	%	2003	%	Company	Head office
F	76,12	F	76,12	Airbus Military S.L.	Madrid (Spain)
F	100,00	F	100,00	EADS CASA North America, Inc.	Chantilly / Virginia (USA)
F	100,00	F	100,00	EADS CASA S.A. (Unit: EADS CASA Military Transport Aircraft)	Madrid (Spain)
F	75,00			EADS PZL "WARSZAWA-OKECIE" S.A.	Warsaw (Poland)

Aeronautics

2004	%	2003	%	Company	Head office
F	80,00	F	80,00	Aerobail GIE	Paris (France)
F	100,00	F	100,00	American Eurocopter Corp.	Dallas, Texas (USA)
F	60,00	F	60,00	American Eurocopter LLC	Dallas, Texas (USA)
P	50,00	P	50,00	ATR Eastern Support	Singapour (Singapour)
P	50,00	P	50,00	ATR GIE	Toulouse (France)
P	50,00	P	50,00	ATR International S.A.R.L.	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 S.A.R.L.	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	F	100,00	EADS EFW Beteiligungs- und Verwaltungsgesellschaft GmbH	Munich (Germany)
E	49,99	F	100,00	EADS Revima APU S.A.	Caudebec-en-Caux (France)
F	100,00	F	100,00	EADS Revima S.A.	Tremblay-en-France (France)
F	100,00	F	100,00	EADS Seca S.A.	Le Bourget (France)
F	100,00	F	100,00	EADS Socata S.A.	Le Bourget (France)
F	100,00	F	100,00	EADS Sogerma S.A.	Mérignac (France)
F	50,10	F	50,10	EADS Sogerma Tunisie	Monastir (Tunisia)

F: Fully consolidated P: Proportionate E: Equity method

Appendix: Information on principal investments

2004	%	2003	%	Company	Head office
F	100,00	F	100,00	Elbe Flugzeugwerke GmbH	Dresden (Germany)
F	75,00	F	75,00	Eurocopter South East Asia	Singapore (Singapore)
F	100,00	F	100,00	Eurocopter Canada Ltd	Ontario (Canada)
F	100,00	F	100,00	Eurocopter Deutschland GmbH	Donauwörth (Germany)
F	100,00			Eurocopter España S.A.	Madrid (Spain)
F	100,00	F	100,00	Eurocopter Holding S.A.	Paris (France)
F	100,00	F	100,00	Eurocopter S.A.	Marignane (France)
F	76,52	F	76,52	Helibras - Helicopteros do Brasil S.A.	Itajuba (Brazil)
F	100,00	F	100,00	Maroc Aviation S.A.	Casablanca (Morocco)
F	100,00	F	100,00	Noise Reduction Engineering B.C.	Washington D.C. (USA)
F	100,00	F	100,00	Socata Aircraft Inc.	Miami, Florida (USA)
F	100,00	F	100,00	Sogerma America Barfield B.C.	Miami, Florida (USA)
F	100,00	F	100,00	Sogerma Drawings S.A.	Mérignac (France)

Additionally consolidated are 41 SPEs.

Headquarters

F	100,00	F	100,00	Airbus Financial Company Holding B.V.	Dublin (Ireland)
F	75,00	F	75,00	DADC Luft- und Raumfahrt Beteiligungs AG	Munich (Germany)
E	46,22	E	46,03	Dassault Aero Service	
E	46,22	E	46,03	Dassault Assurances Courtage	
E	46,22	E	46,03	Dassault Aviation	Paris (France)
E	46,22	E	46,03	Dassault Falcon Jet and subsidiaries	Teterboro NJ (USA)
E	46,22	E	46,03	Dassault Falcon Service	
E	46,22	E	46,03	Dassault International France	Vaucresson (France)
E	46,22	E	46,03	Dassault Intemational Inc	Paramus NJ (USA)
F	93,58	F	93,58	Dornier Zentrale	Friedrichshafen (Germany)
F	100,00	F	100,00	EADS CASA France	Paris (France)
F	100,00	F	100,00	EADS CASA S.A. (Headquarters)	Madrid (Spain)
F	100,00	F	100,00	EADS Deutschland GmbH – Zentrale	Munich (Germany)
F	100,00	F	100,00	EADS Deutschland GmbH, FO - Forschung	Munich (Germany)
F	100,00	F	100,00	EADS Deutschland GmbH, LO - Liegenschaften OTN	Munich (Germany)
F	100,00			EADS Finance B.V.	Amsterdam (Netherlands)
F	100,00	F	100,00	EADS France	Paris (France)
F	100,00	F	100,00	EADS North America Inc.	Washington (USA)
F	100,00	F	100,00	EADS Raumfahrt Beteiligungs GmbH	Ottobrunn (Germany)
F	93,58			EADS Real Estate Dornier Grundstücke GmbH & Co. KG	Taufkirchen (Germany)
E	46,22	E	46,03	IPS	
E	46,22	E	46,03	Société Toulouse Colomiers	
E	46,22	E	46,03	Sogitec Industries	Suresnes (France)

F: Fully consolidated P: Proportionate E: Equity method

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

EADS N.V. Consolidated Financial Statements (Dutch GAAP)

1 Consolidated Income Statements (Dutch GAAP)

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

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

2 Consolidated Balance Sheets (Dutch GAAP)

(in millions of €)	Note	At December 31, 2004	2003
Assets			
Intangible assets	4	9,416	9,694
Property, plant and equipment		12,905	11,448
Investments in associates	5	1,712	1,640
Other investments and long-term financial assets		2,352	2,489
Fixed assets		**26,385**	**25,271**
Inventories		3,075	3,279
Trade receivables		4,406	4,001
Other receivables and other assets		11,105	10,280
Securities		466	468
Cash and cash equivalents		8,718	7,404
Non-fixed assets		**27,770**	**25,432**
Deferred taxes		**2,543**	**2,724**
Prepaid expenses		**951**	**951**
Total assets		**57,649**	**54,378**
Liabilities and shareholders' equity			
Capital stock		810	813
Reserves		9,711	9,589
Accumulated other comprehensive income		6,086	5,934
Treasury shares		(177)	(187)
Shareholders' equity		**16,430**	**16,149**
Minority interests	6	**2,295**	**2,179**
Provisions		**8,573**	**8,726**
Financial liabilities		5,126	4,767
Trade liabilities		5,860	5,117
Other liabilities		13,240	11,318
Liabilities		**24,226**	**21,202**
Deferred taxes		**4,134**	**3,664**
Deferred income		**1,991**	**2,458**
Total liabilities and shareholders' equity		**57,649**	**54,378**

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

3 Consolidated Statements of Cash Flows (Dutch GAAP)

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

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

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

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

Notes to Consolidated Financial Statements (Dutch GAAP)

1 Accounting principles applied for Dutch GAAP purposes

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

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

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

2 Presentation of financial statements

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

3 Dutch GAAP reconciliation

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

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

Reconciliation of net income from IFRS to Dutch GAAP:

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

Earnings per share:

(in €)	2004	2003
Basic	0.61	0.19
Diluted	0.61	0.19

Reconciliation of stockholders' equity from IFRS to Dutch GAAP:

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

4 Other operating expenses / Intangible assets

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

The movement in intangible assets are detailed as follows:

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

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

5 Income from investments / Investments in associates

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

The movement in investments in associates are detailed as follows:

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

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

6 Minority interests

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

EADS N.V. Financial Statements (Dutch GAAP)

1 Balance Sheets (Dutch GAAP)

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

2 Income Statements (Dutch GAAP)

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

Notes to Financial Statements (Dutch GAAP)

1 General

EADS N.V., having its legal seat in Amsterdam, the Netherlands, is engaged in the holding, coordinating and managing of participations or other interests in and to finance and assume liabilities, provide for security and/or guarantee debts of legal entities, partnerships, business associations and undertakings that are involved in the aeronautic, defence, space and/or communication industry or activities that are complementary, supportive or ancillary thereto.

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

2 Fixed assets

The movement in fixed assets are detailed as follows:

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

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

The loans are provided to affiliated companies.

3 Receivables and other assets

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

The receivables from affiliated companies include mainly receivables in connection with the cash pooling in EADS N.V.. All receivables and other assets mature within one year.

4 Securities, Cash and cash equivalents

The securities comprise mainly Available-for-Sale Securities.

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

5 Stockholders' equity

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

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

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

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

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

6 Other liabilities

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

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

7 Commitments and contingent liabilities

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

8 Remuneration

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

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

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

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
François David	–	66,667	20,000	86,667
Rüdiger Grube	–	66,667	35,000	101,667
Michael Rogowski	30,000	100,000	20,000	150,000
Former directors				
Eckhard Cordes	30,000	33,334	10,000	73,334
Pedro Ferreras	30,000	54,167	15,000	99,167
Jean-René Fourtou	30,000	33,334	–	63,334
Total	**3,949,425**	**4,549,050**	**290,000**	**8,788,475**

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

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

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

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

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

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

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

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

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

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

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

Supplementary Information

1 Auditors' report

Introduction

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

Scope

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

Opinion

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

Rotterdam, March 8, 2005

KPMG Accountants N.V.

Amsterdam, March 8, 2005

Ernst & Young Accountants

2 Appropriation of result

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

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

3 Subsequent events

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

How to get to the Sheraton Amsterdam Airport Hotel

By air

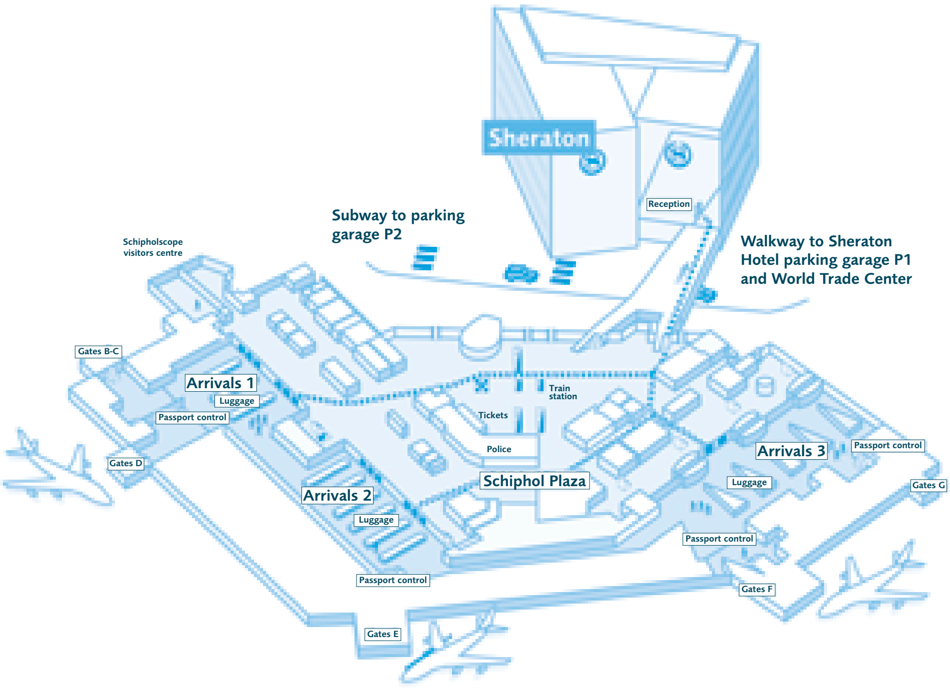
Arrival Terminals Schiphol Airport

- From the Arrival Terminal (1, 2 or 3) follow the signs Schiphol Plaza. From Schiphol Plaza follow the signs WTC / Sheraton directing to the Traverse walkway. In this walkway pass the Ticket machines and you will find after 50 metres the Sheraton Amsterdam Airport Hotel on your left hand.

By railway

Arrival Train: Schiphol Airport

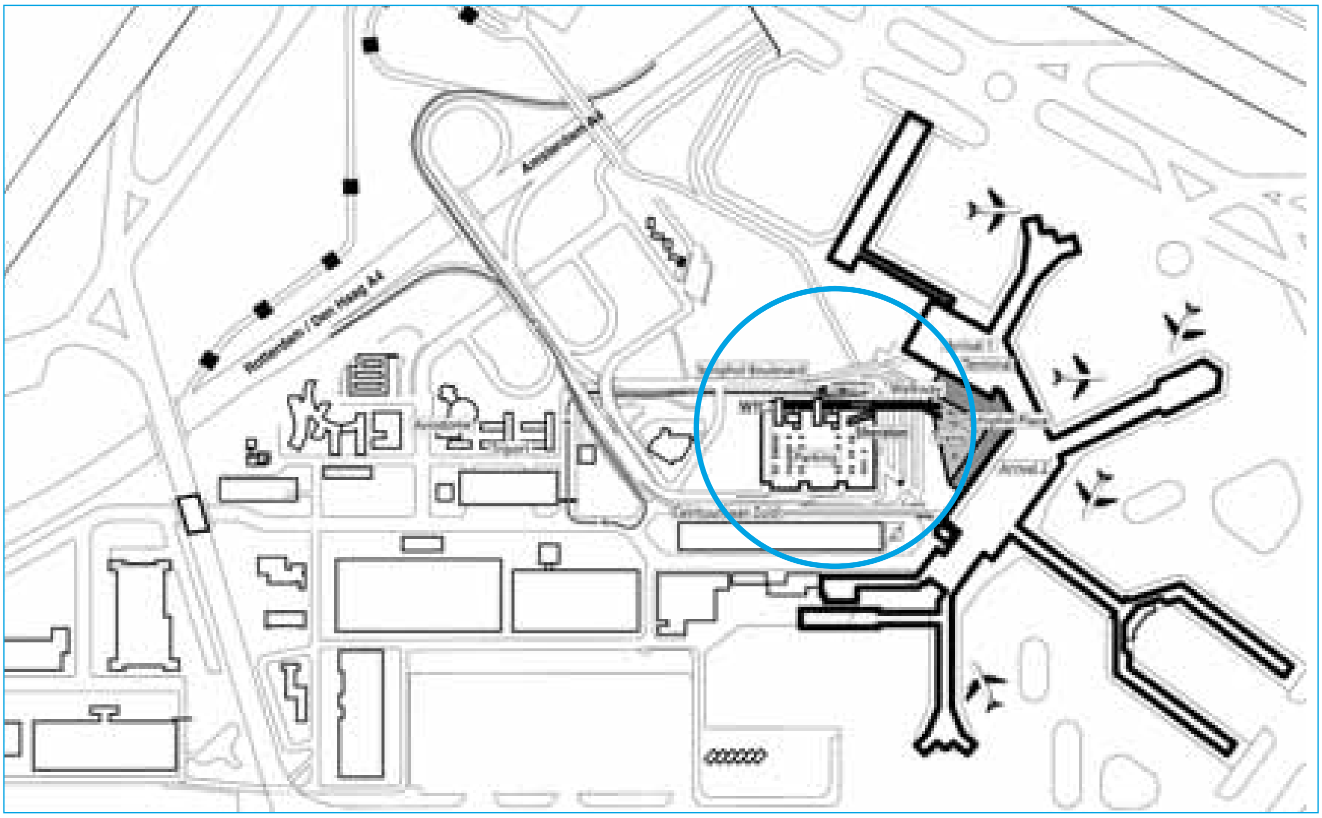
- From the train platform go up with the escalator to Schiphol Plaza. From Schiphol Plaza follow the signs WTC / Sheraton directing to the Traverse walkway. In this walkway pass the Ticket machines and you will find after 50 metres the Sheraton Amsterdam Airport Hotel on your left hand.



By car

A4: from the Hague / Rotterdam & Amsterdam

- From the A4 Motorway take Exit: Schiphol and follow the signs WTC Kantoren / Sheraton until the Sheraton Parking. Within the parking take the elevator to the second floor. On the second floor (you are now in the Traverse walkway) go to the right in the direction of Schiphol Airport Arrival & Departure. After 50 metres you will find the entrance of the Sheraton Amsterdam Airport Hotel on your right hand.



Shareholders Information
(free call)

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