Documentation for the Annual General Meeting

on Thursday, May 4, 2006 at 10:30 a.m.
at Hotel Okura Amsterdam
Ferdinand Bolstraat 333,
1072 LH Amsterdam, The Netherlands

EADS
The step beyond

Agenda

1. Approval of the Report of the Board of Directors including the:
    a) chapter on corporate governance,
    b) policy on dividends,
    c) proposed remuneration policy including arrangements for the grant of stock options and performance shares and rights to subscribe for shares for the Members of the Board of Directors;

2. Adoption of the audited accounts for the financial year 2005;

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

4. Release from liability of the Members of the Board of Directors;

5. Appointment of the auditors for the financial year 2006;

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

7. Cancellation of shares repurchased by the Company;

8. 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

First 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 performance shares and rights to subscribe for shares for the Members of the Board of Directors, be and hereby is accepted and approved.

Second Resolution

Adoption of the audited accounts for the financial year 2005

RESOLVED THAT the audited accounts for the accounting period from 1st January 2005 to 31st December 2005, as submitted to the Annual General Meeting by the Board of Directors, be and hereby are adopted.

Third Resolution

Approval of the result allocation, distribution and payment date

RESOLVED THAT the net profit of €1,676 million, as shown in the audited profit and loss statement for the financial year 2005, shall be added to retained earnings and that a payment of a gross amount of €0.65 per share shall be made to the shareholders from distributable reserves on 1st June 2006.

Fourth 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 2005, to the extent that their activity has been reflected in the audited annual accounts for the financial year 2005 or in the Report of the Board of Directors.

Fifth Resolution

Appointment of the auditors for the financial year 2006

RESOLVED THAT the Company's auditors for the accounting period being the financial year 2006 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.

Sixth 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 authorized 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 2007. Such powers include the approval of share-related long term incentive plans (such as stock option, performance and restricted share plans) and employee share ownership plans. Such powers may also 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 and the issue of shares to be paid up from freely distributable reserves.

Seventh 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 6,656,970 shares, be cancelled and both the Board of Directors and the Chief Executive Officers be and hereby are authorized, with powers of substitution, to implement this resolution in accordance with Dutch law.

Eighth Resolution

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

RESOLVED THAT the Board of Directors be and hereby is authorized, 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 10% of the Company's issued share capital and at a price not less than the nominal value and not more than the higher of the price of the last independent trade and the highest current independent bid on the trading venues of the regulated market of the country in which the purchase is carried out. This authorization supersedes and replaces the authorization given by the Annual General Meeting of 11th May 2005 in its tenth resolution.

Report of the Board of Directors

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 2005 financial year;
- second, to present the financial statements of EADS for the 12 months ended 31st December 2005, 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 2006; and
- finally, to approve the renewal of financial authorisations to the Board.

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 company financial statements for 2005, and the same information for 2004 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 has been the recognised 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 113,210 employees (at year-end 2005) and revenues of €34.2 billion in 2005, EADS is Europe's number one aerospace and defence company, and the second largest aerospace and defence company in the world.

In terms of market share, EADS is 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 organised its businesses in five divisions: (i) Airbus, (ii) Military Transport Aircraft, (iii) Eurocopter, (iv) Defence and Security Systems and (v) Space.

In 2005, EADS generated 77.5% of its revenues in the civil sector and 22.5% in the defence sector.

2. Main events for 2005

For the sixth 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.

2005 was a record year for the aviation industry. Airlines ordered an unprecedented number of commercial aircraft, motivated by strong demand from low cost carriers and the rapid growth of aviation in Asia. The high oil price is also boosting demand for fuel-efficient aircraft. Business with public customers was still influenced by strong fiscal pressure limiting budgets for public investment in EADS' home markets.

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

- in 2005, Airbus delivered more aircraft than Boeing for the third straight year, and took more orders for the fifth year;
- the Space division confirmed its return to profitability in 2005;
- the defence businesses contributed increasingly to the growth of the order book;
- Eurocopter consolidated a record order book of almost €10 billion;
- EADS' order book at year-end was very strong at €253 billion, which split into €201 billion in commercial business and €52 billion in defence;
- EADS has generated an EBIT* of €2,852 million and reached again a higher net cash position than planned (€5,489 million at year-end 2005);
- 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 2005" of this Board Report).

In the civil aviation business, EADS captured over 52% of new aircraft gross orders, reflecting the quality and performance of its product range. Airbus received 1,055 net orders (1,111 gross orders) in 2005, including a large order of 100 A320s for IndiGo. Asia, the Middle East and low cost airlines have supported orders.

Airbus delivered 378 aircraft, well above the 2004 level (320), further reflecting the market upturn.

Airbus realised significant achievements in the A380 programme, with the first flight of the A380 on 27th April 2005. By the end of 2005, Airbus had reached the satisfactory level of 159 firm orders from customers for this aircraft. China Southern and Kingfisher Airlines joined the roster of A380 customers. First deliveries are expected at the end of 2006.

In October 2005, the Board of Directors of EADS and the Shareholders Committee of Airbus approved the industrial launch of the A350 to complete the long-range family of Airbus, based upon quality and volume of demand for this aircraft.

Following its unilateral withdrawal from the 1992 EU-US Agreement on Trade in Large Civil Aircraft, the US lodged a request on 6th October 2004 to initiate settlement proceedings before the World Trade Organisation (WTO). In response, the EU launched a parallel WTO case against the US in relation to its subsidising of Boeing. On 11th January 2005, the EU and the US agreed to suspend their respective WTO cases for three months, with a view towards reaching a new agreement relating to public funding of large civil aircraft. However, the parties were not able to reach a satisfactory agreement and in the course of 2005, the EU and the U.S. reciprocally initiated the litigation steps in the WTO. The latest developments show that the exact timing of the WTO litigation process has still to be agreed through negotiations between the US and the EU.

For **defence businesses** (including all military activities: transport and fighter aircraft, helicopters, satellites, missiles, ...), 2005 was characterised by stable revenues and a growing order book. The major contracts contributing to this achievement are an A400M contract with South Africa, contracts for the C-295 transport aircraft and the modernisation of maritime surveillance aircraft with Brazil, an order for Eurofighter self-protection electronics, India's order for Exocet missiles and France's appointment of EADS to develop a new army information and communication system. As part of the Medium Extended Air Defence System (MEADS) International consortium, EADS was awarded a part in designing and developing the tri-national MEADS system. Major prospects for the years to come are the contracts arising from the selection of NH90 helicopters by Spain and the New Zealand Airforce. The defence order-book as a whole has grown from €49 billion at end 2004 to €52 billion at end 2005, and defence revenues remained stable at €7.7 billion.

Growing EADS capabilities and revenues in defence is a core strategic priority for the Group. This strategy is also embodied by a structuring teaming agreement with Northrop Grumman, a significant milestone for EADS which addresses the U.S. tanker market in the most effective way. Additionally, EADS confirmed its strong position as the 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. EADS expanded its presence in the areas of naval business with the acquisition (which will be completed in 2006 as soon as the relevant supervisory boards and the relevant antitrust authorities have given their go-aheads) of Atlas Elektronik - together with ThyssenKrupp Technologies - and professional mobile radio (PMR) business with the purchase of Nokia's PMR business. In missile systems, EADS took decisive steps in integrating LFK into MBDA.

Space confirmed its return to profitability in 2005, reflecting the positive impact of the lower cost base over a full 12 months following the restructuring completed in 2004. EADS Space finished the year with a strong positive progression in EBIT*: €58 million (as compared to €9 million in 2004). Business successes contributing to this performance were the successful launch of the new Ariane 5 ECA (with enhanced payload), a contract with the Vietnamese government for the supply of a satellite based monitoring system, the selection of EADS Astrium by the European Space Agency (ESA) to develop and build three satellites for the Swarm mission, and the signature by Paradigm of a two-year extension to Skynet 5 contract and the order of a third Skynet 5 satellite.

To continue its global expansion, EADS has identified key countries with high long-term growth potential. In 2005, EADS businesses have made significant progress in establishing an international industrial footprint, as highlighted for example by strategic partnerships Eurocopter signed in Korea and China, and the decision by Airbus to study the building of an A320 Final Assembly Line in China. In order to accelerate and orchestrate the pace of expansion, EADS has created a dedicated function: "Global Industrial Development".

In line with EADS' Articles of Association, the Board of Directors was renewed at last year's AGM. At the same time, two new Chief Executive Officers (CEOs) and two Chief Operating Officers (COOs) have been appointed and a reshaping of EADS' divisional structure and headquarters organisation has taken place. This process was accompanied and closely supervised by EADS' Board, thus guaranteeing continuity in EADS' strategy and reliability towards its stakeholders.

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, such as laid out in EADS' newly issued Code of Ethics. 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 2005, 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 31st December 2005, EADS' issued share capital amounted to €817,743,130 divided into 817,743,130 shares of a nominal value of €1 each.

Evolution in 2005

On 3rd June and 9th December 2005, the Board approved the following measures in accordance with the authorisations granted by the shareholders' meeting dated 11th May 2005:

- the offering of up to 2,025,000 shares to eligible employees of EADS within the framework of an employee share ownership plan ("**ESOP**"). As a result, on 29th July 2005, 1,938,309 shares were issued;
- the granting of stock options to selected EADS employees for the subscription of 7,981,760 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 5,003,380 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. During 2005, EADS repurchased 5,687,815 shares pursuant to contracts entered into with a bank to purchase EADS shares on EADS' behalf through derivative products in order to compensate the dilution effect resulting from previous SOPs. Further, 1,336,358 treasury shares were cancelled on 25th July 2005 in accordance with the decision of the shareholders' meeting dated 11th May 2005.
- Finally, in 2005, EADS employees exercised 7,562,110 stock options granted to them through stock option plans launched by the company in the years 2000, 2001, 2002 and 2003. As a result 7,562,110 new shares were issued in the course of 2005.

Shareholding structure

As a result of the above, EADS' issued share capital was owned on 31st December 2005 as follows:

- 1.30% by the Company itself, and consisting of shares deprived from economic and voting rights, while owned by the Company (not including the EADS shares legally owned by the bank with which EADS entered into agreements to purchase EADS shares but whose economic ownership lies with EADS);
- 29.89% (i.e.: 30.29% of the voting rights) indirectly by DaimlerChrysler AG;
- 29.89% (i.e.: 30.29% of the voting rights) by 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, 59.78% (i.e.: 60.58% 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;

- 5.47% (i.e.: 5.53% of the voting rights) by Sociedad Estatal de Participaciones Industriales ("**SEPI**") (a Spanish State holding company), also party to the contractual partnership mentioned above;
- 33.39% (i.e.: 33.83% of the voting rights) by the public (including EADS employees 2.25% (i.e.: 2.28% 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 2005

The institutional investor ownership of EADS shares progressed during 2005, with European institutions lifting their investments. Continental European institutional investors increased their stake significantly from 34% to 40%. Meanwhile, the UK and US investors' stake has receded somewhat from 55% to 48%.

Closing the year at €31.95, the EADS share price was up a full 50% from a year earlier, while the CAC40 and the Aerospace and Defense sector of the market gained 23% and 21% respectively over the period. In a context of rising share prices, trading volume remained high, averaging around 2 million shares daily.

The start of 2005 was slow, with the share price consolidating following news of delays hitting the A380 programme, management succession issues and conservative financial guidance for 2005 announced in December 2004. EADS shares gained a meager 1.73% in the four and a half months to mid-May. This was despite reassuring delivery guidance, and good full year 2004 results published in the first quarter along with a financial guidance upgrade and a 25% dividend increase.

But EADS shares gained considerable momentum following the publication of first quarter 2005 results in May, a very fruitful Paris Airshow as well as the announcement of new management in June. These events gave a perception of renewed strategic initiative, combined with market success. In late July, first half results and cash flow, and a further guidance increase reinforced investor appetite for EADS shares despite continued dollar uncertainty, rising fuel prices and openly heated competition in civil aviation between Airbus and its main competitor.

Between mid-May and year end, the EADS share price rose by almost 50%. It reached an all-time peak on 20th December at €33.45, in the midst of heavy news flow including a substantial Chinese order and a follow-on Paradigm order for Astrium. The stock price then consolidated until year end in low trading volumes, largely influenced by US dollar weakness and fuel price anxieties.

3.3 Dividend policy

The Board of Directors will recommend to the AGM the level of attributions to reserves, and a cash distribution of a gross amount of €0.65 per share with respect to the year 2005.

The amount of the proposed cash distribution, up for the third consecutive year, results from the Company's performance during the year 2005. This distribution level also reflects Management's confidence in the Company's future earnings as the strength of the commercial aviation cycle – particularly due to Asian demand - and the increasing profitability of defence and space activities suggest sustained growth.

Looking forward, EADS' Board has adapted its distribution policy, reflecting the belief that continuity and growth of dividends is a desirable shareholder objective, subject to factors such as EADS' distribution capacity arising from performance, its priorities for cash utilisation and future prospects.

3.4 Relationship with principal shareholders

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

3.5 Future Employee Share Ownership Plans (ESOP) and Long Term Incentive Plan (LTIP)

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.

3.5.1 Future ESOP

The Company intends to implement an ESOP in 2006. The plan's implementation would have to be formally approved by the Board. The 2006 plan would have the following main characteristics: offer, 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.

3.5.2 Future LTIP

The Group is keen to maintain a Long-Term Incentive Plan. The market trend is moving away from granting stock options towards more focus on ordinary shares (based on Company performance) or other alternatives. From 2006, the Group is planning to implement a new Long-Term Incentive Plan tool. The new tool would be based on a mix of stock options and performance shares granted to Group executives based on their hierarchical level. Performance shares are ordinary shares. Vesting of these shares would be conditional upon mid-term business performance. In addition, restricted shares which are also ordinary shares would be granted to selected individuals to reward personal performance and potential. Vesting of these shares would be subject to presence in the Group.

This plan implementation would again have to be formally approved by the Board. The plan would offer rights to subscribe and/or acquire up to a maximum of approximately 3.2 million shares of the Company, i.e. up to 0.4% of its issued share capital, given to specific beneficiaries, on the basis of the use of existing repurchased shares and/or capital increase subject to the approval of this AGM.

4. Corporate governance

In 2005, 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, has 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 2005 and was regularly informed of developments through business reports from the CEOs, including rolling forecasts as well as strategic and operational plans. The average attendance rate at such meetings was 91%. Topics intensively discussed and operations authorised at these meetings included EADS strategy, reorganisation topics (such as the reshaping of EADS divisional structure and headquarter organisation), major business issues (such as the A350 industrial launch decision, Airbus future product policy, EADS' strategy in defence including European industry consolidation and the acquisition of Atlas Elektronik together with ThyssenKrupp Technologies, the review of the EADS UAV programmes, the co-development of the EC 175 helicopter with China and the review of Sogerma future strategy), and the approval of operational plans, budgets, remuneration (including a SOP and an ESOP) and the Group's financial results and forecasts, as well as financial optimisations and the process of risk management and internal controls. 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 its meeting on 11th May 2005, Manfred Bischoff and Arnaud Lagardère were re-elected as Chairmen and the two Board Committees were re-constituted with the same members as previously.
The EADS Board has also appointed on 25th June 2005

the EADS CEOs, the two COOs, the CEO of Airbus, the Head of the Defence and Security Systems division, and the Head of Eurocopter as members of the Executive Committee, while confirming other members of the Executive Committee.

Following the changes to EADS' Corporate Governance decided in 2003 in light of the corporate governance best practices developed in jurisdictions relevant to EADS, the Board supervised the implementation of such decisions during the year 2004. Among other matters, the introduction package was remitted to new Board members after their appointment through the AGM.

In addition to the Rules, the work of the Board of Directors is governed by internal directors' guidelines (the "**Directors' Guidelines**") adopted, in its meeting dated 10th December 2004 in light of corporate governance best practices. The Directors' Guidelines are composed of a Directors' charter (the "**Directors' Charter**") detailing the rights and duties of the members of the Board of Directors, an Audit Committee charter (the "**Audit Committee Charter**") and a Remuneration and Nomination Committee charter (the "**Remuneration and Nomination Charter**") each such charter setting forth the respective committees' enhanced roles. The Audit Committee met three times during the year 2005 and had one written consultation, with a 94% attendance rate, to review the 2004 results as well as the first half-year results for 2005. As decided by the Board on 5th December 2003, the role of the Audit Committee was increased with new tasks such as, in particular, the review of the quarterly financial reports. The Remuneration and Nomination Committee met five times during 2005, with a 92% average attendance rate, to review the compensation policy (including pension schemes), the bonus payments for 2004, the stock option plan and the employee share ownership plan for 2005, and to recommend the appointment of the President and the Chief Executive Officer of EADS Space Transportation, the head of Defence and Communications Systems and the Chief Executive Officer of EADS Sogerma Services.

Last year's self-evaluation was conducted as from December 2005 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 on the results at the following 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 self-assessment concluded that the overall performance of the Board is very satisfactory.

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

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

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 applies the provisions of the Dutch Code or, if applicable, explains 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 has, in accordance with the Dutch Code's "Apply or Explain" principle, provided the relevant explanations in paragraph 4.2 "Dutch Corporate Governance Code" of its Board Report for the 2004 financial year (statement available on EADS website **www.eads.com**, in the section on "Corporate Governance") which was approved by the Annual General Meeting held on 11th May 2005. These explanations give the detailed reasons for non-application of provisions III.2.1, III.3.6, III.4.1(f), III.5.1, III.5.6, III.5.11, III.5.12, III.8.3, III.5.13(a), III.5.13(d) (essentially as a result of EADS being a controlled Company and, therefore, most of the Members of the Board, Audit Committee and Remuneration and Nomination Committee could be designated and possibly be removed by its controlling shareholders), II.2.6, III.7.3, III.7.2, II.1.1, III.3.5, IV.3, IV.2 and IV.1.7 (essentially as a result of EADS being listed on the Frankfurt, Paris and Spanish stock exchanges and endeavouring to strictly comply with the relevant regulations and following the general practices on these markets protecting all its stakeholders) remain valid. In addition, the last year's statement of the Company is modified as follows:

1. As for remuneration of Members of the Board

EADS applies different rules for the remuneration of executive and non executive members of the Board, as explained in "4.3 Remuneration policy of the members of the Board of Directors".

a) EADS is compliant with the general principles applicable in the markets where it is listed. Regarding future Long-Term Incentive Plan to Executive Members of the Board, it is planned that for SOP a 10% premium will be taken into account when determining the granting price and that Performance Shares would be based on mid-term performance criteria, the volume of grant is detailed in "4.3.2 LTIP" (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 has been reviewed by EADS in an effort to align itself with best practice recommendations. In case of dismissal from the Company, a termination package equal to twice the annual total target salary would be paid. However this termination package would be reduced prorata depending on the age of retirement (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).

2. EADS maintains integrated Group-wide internal control and risk management frameworks with the purpose of providing reasonable assurance that risks are effectively managed

The frameworks define risk and control assessment procedures which have been implemented during 2005. In addition, an independent review process started in 2005. These procedures and reviews are designed to provide reasonable assurance regarding the adequacy and effectiveness of the internal control and risk management systems in place. 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).

3. Ethics Alert System

EADS considers putting in place a procedure for receiving concerns regarding e.g. financial reporting, internal risk management and control systems, as well as regarding general operational matters. After completion of the various legal proceedings regarding the introduction of such procedure, an Ethics Alert System would be ready for implementation, thus allowing the Company to 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 2005 together with additional information such as volumes of stock options, see "Notes to the Company Financial Statements - Note 9: 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 summarised in the following paragraphs.

4.3.1.1 Compensation of Non-Executive Members of the Board

The target compensation of Non-Executive Members of the Board is composed of (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).

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 for the Chief Executive Officers 45% fixed and 55% variable and for the other Executive Directors 50% fixed and 50% variable (in case of overachievement of the targets, the variable part can exceed 55% and 50%, respectively, of total compensation).

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

- collective part (50% of the variable part) to reward business performance at Group level or division level (if applicable). Cash has been introduced in 2004 as a complementary financial indicator to EBIT* (EBIT* represents 75% of the collective part and cash represents 25% of the collective part).
- 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 long-term incentive plans (see below). They receive neither Board attendance fees nor any dedicated compensation as members of the Board.

Benchmark studies on Board compensation basically confirm that EADS' compensation structure is generally in line with European market practices.

4.3.2 LTIP

Executive Members of the Board are eligible for the EADS LTIP, which are a general tool for talent retention and promotion of Company value growth.

If, as planned, a LTIP as described under 3.5.2 "Future LTIP" is implemented in 2006, the maximum volume of stock options and performance shares to be granted to Executive Members of the Board should be 300,000 for stock options and 75,000 for performance shares in total.

The Remuneration and Nomination Committee makes recommendations to the Board, which 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).

If, as planned, an ESOP as described under 3.5.1 "Future ESOP" is implemented in 2006, Executive Members of the Board would be entitled to subscribe, during the subscription period, up to a maximum of 500 shares each (2,000 in total) with a discount to the market price. Those shares cannot be sold during a period of one year in case of a direct ownership or a period of five years in case of ownership through a mutual fund.

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. These rights will gradually 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 also have separate rules e.g. for 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.

Under the terms of the new contracts, Executive Members of the Board have an indefinite term contract. These contracts can be terminated at any time with six months notice. Executive Members of the Board are entitled to a termination package when the parting results from a decision by the Company. Termination package is a maximum indemnity of 24 months of target income, and could be reduced prorata depending on retirement age.

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

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

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

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

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

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

5.1 Consolidated Financial Statements (IFRS)

5.1.1 Consolidated Income Statements (IFRS)

Table 1 - Consolidated Income Statements (IFRS)

(in €m)	2005	2004
Revenues	**34,206**	**31,761**
Cost of sales	(27,530)	(25,522)
Gross margin	**6,676**	**6,239**
Selling expenses	(832)	(798)
Administrative expenses	(1,351)	(1,321)
Research and development expenses	(2,075)	(2,126)
Other income	222	314
Other expenses	(153)	(177)
Share of profit from associates	210	88
Other income (expense) from investments	15	(4)
Profit before finance costs and income taxes	**2,712**	**2,215**
Total finance costs	(177)	(330)
Income taxes	(825)	(664)
Profit for the period	**1,710**	**1,221**
Attributable to:		
Equity holders of the parent **(Net Income)**	1,676	1,203
Minority interests	34	18

5.1.2 Revenues

Revenues grew by 8% to €34.2 billion (FY 2004: €31.8 billion). Increases were achieved at Airbus, Eurocopter, Space and Defence & Security Systems Divisions. Combined revenues from EADS defence businesses remained at €7.7 billion (2004: €7.7 billion), due to a shift of revenue recognition on the A400M programme to the first quarter of 2006.

5.1.3 EBIT* pre-goodwill impairment and exceptionals

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

Table 2 - Reconciliation Profit before finance costs and income tax to EBIT* (IFRS)

(in €m)	2005	2004
Profit before finance costs and income tax	**2,712**	**2,215**
Exceptional depreciation (fixed assets)	136	212
Exceptional depreciation (inventories and others)	4	5
EBIT* pre-goowill impairment and exceptionals	**2,852**	**2,432**

** Pre-goodwill impairment and exceptionals*

In 2005, EADS clearly outperformed its previous record year. The outstanding result is mainly due to the continued strong revenues and earnings of Airbus as well as of the Group's space and defence businesses. The EBIT* grew in spite of a less favourable FY 2005 average hedge rate of €1 = US$ 1.06 (FY 2004: €1 = US$ 0.99).

In 2005, EADS expensed €2.1 billion on Research and Development (R&D), representing a decline of 2% compared to 2004. In the same period, €293 million were capitalized, of which €259 million related to the A380 programme (FY 2004: €165 million, of which €152 million was for the A380). EADS' R&D expenditure, remaining high in 2005, reflecting the Group's continued emphasis on technological investment.

Table 3 - EBIT* and Revenues by Division

by Division	**EBIT***			**Revenues**		
(in €m)	**FY 2005**	FY 2004	Change	**FY 2005**	FY 2004	Change
Airbus	**2,307**	1,919	+20%	**22,179**	20,224	+10%
Military Transport Aircraft	**48**	26	+85%	**763**	1,304	-41%
Eurocopter	**212**	201	+5%	**3,211**	2,786	+15%
Space	**58**	9	+544%	**2,698**	2,592	+4%
Defence & Security Systems	**201**	226	-11%	**5,636**	5,385	+5%
Headquarters / Consolidation	**197**	49	–	**-1,436**	-1,653	–
Other Businesses(1)	**-171**	2	–	**1,155**	1,123	+3%
Total	**2,852**	2,432(2)	+17%	**34,206**	31,761	+8%

** Pre-goodwill impairment and exceptionals.*
(1) ATR, EADS EFW, EADS Socata and EADS Sogerma Services are allocated to Other Businesses which is not a stand-alone EADS Division.
(2) Previous year restated by stock options expense (€-12 million for EADS group) according to first time application of IFRS 2.

5.1.4 Consolidated Balance Sheets (IFRS)

Table 4 - Consolidated Balance Sheets (IFRS)

	31st December		
(in €m)	**2005**	**2004**	**Change**
Intangible assets	11,052	10,549	503
Property, Plant and Equipment	13,951	12,956	995
Investment in associates	1,908	1,738	170
Other investments and long-term financial assets	1,938	2,110	(172)
Deferred tax assets	2,557	2,548	9
Non-current securities	1,011	466	545
Non-current other assets	3,610	7,096	(3,486)
Non-current assets	**36,027**	**37,463**	**(1,436)**
Inventories	15,425	12,334	3,091
Trade receivables	4,802	4,406	396
Other current assets	3,675	5,242	(1,567)
Current securities	29	0	29
Cash and cash equivalents	9,546	8,718	828
Current assets	**33,477**	**30,700**	**2,777**
Non-current assets classified as held for sale	**881**	**0**	**881**
Total assets	**70,385**	**68,163**	**2,222**
Equity attributable to equity holders of the parent	13,726	16,210	(2,484)
Minority interests	176	144	32
Total equity	**13,902**	**16,354**	**(2,452)**
Non-current provisions	6,879	6,074	805
Long-term financial liabilities	4,189	4,405	(216)
Deferred tax liabilities	2,376	4,134	(1,758)
Other non-current liabilities	11,295	10,267	1,028
Non-current liabilities	**24,739**	**24,880**	**(141)**
Current provisions	2,727	2,350	377
Short-term financial liabilities	908	818	90
Liability for puttable instruments	3,500	3,500	0
Trade liabilities	6,634	5,860	774
Current tax liabilities	174	178	(4)
Other current liabilities	17,739	14,223	3,516
Current liabilities	**31,682**	**26,929**	**4,753**
Liabilities directly associated with non-current assets held for sale	**62**	**0**	**62**
Total equity and liabilities	**70,385**	**68,163**	**2,222**

5.1.5 Net Cash

EADS' net cash position was boosted 39% to €5.5 billion (2004: €4 billion). EADS' active cash management policies are prudent and provide flexibility for further business development.

Free Cash Flow (FCF) before Customer Financing was again strongly positive, reaching €2.2 billion (2004: €1.8 billion). This performance reflects the positive cash contribution from operations, driven by contributions from working capital, higher Net Income and lower capital expenditures on the A380 development. FCF including customer financing grew even stronger and reached €2.4 billion (FY 2004: €1.6 billion) due to the sell-down of customer financing exposure to the financial markets.

5.1.6 Order Intake and Order Book

Mirroring the strong business momentum of EADS' operational units order intake more than doubled to €92.6 billion over the previous year (FY 2004: €44.1 billion).

At €253.2 billion, the EADS order book (contributions from commercial aircraft activities based on list prices) grew to a record amount at year-end 2005 (2004: €184.3 billion). On top, this outstanding EADS order book benefited from a more favourable US Dollar closing spot rate of €1 = US$ 1.18 (2004: €1 = US$ 1.36) displaying a positive dollar impact on the non-hedged part of the Airbus order book (around €10 billion). To date, EADS' order book is the strongest in the global aerospace and defence industry.

At the end of 2005, the Group's defence order book stood at €52.4 billion (2004: €49.1 billion) which is 7% up compared to the previous year.

Table 5 - Order Intake and Order Book by Division

by Division	Order Intake(2)			Order Book(2)		
(in €m)	**FY 2005**	FY 2004	Change	**31 Dec 2005**	31 Dec 2004	Change
Airbus	**78,254**	25,816	+203%	**201,963**	136,022	+48%
Military Transport Aircraft	**1,840**	1,176	+56%	**20,961**	19,897	+5%
Eurocopter	**3,522**	3,245	+9%	**9,960**	9,117	+9%
Space	**2,322**	5,658	-59%	**10,931**	11,311	-3%
Defence & Security Systems	**6,673**	8,457	-21%	**18,509**	17,276	+7%
Headquarters / Consolidation	**-1,931**	-1,355	–	**-11,217**	-10,414	–
Other Businesses(1)	**1,871**	1,120	+67%	**2,128**	1,079	+97%
Total	**92,551**	**44,117**	**+110%**	**253,235**	**184,288**	**+37%**

(1) ATR, EADS EFW, EADS Socata and EADS Sogerma Services are allocated to Other Businesses which is not a stand-alone EADS Division.
(2) Contributions from commercial aircraft activities to EADS Order Intake and Order Book are based on list prices.

5.1.7 EADS Division Details

Airbus continued to lead the commercial aircraft market in 2005, delivering its best year ever in terms of deliveries, order intake and profitability. The EBIT* surged to €2,307 million (2004: €1,919 million). The increase was mainly driven by higher aircraft deliveries (378 versus 320 in 2004) and benefited from the Route06 cost savings programme mitigating the less favourable US Dollar. Revenues increased by 10% to €22,179 million (FY 2004: €20,224 million). Airbus' EBIT* margin improved from 9.5% to 10.4%.

With 1,111 gross orders in 2005, Airbus achieved an all-time record order intake in the commercial aviation industry and as a result outsold its competitor for the fifth year in a row. New aircraft orders were in large part motivated by the rapid growth of commercial aviation in Asia. This region represents 47% of Airbus' order intake. Underlining the strong demand from low cost carriers Airbus sold more than one out of three aircraft in this segment (36%) in 2005. The order intake for both the Single Aisle Family (918 units) and the long range aircraft A330/A340/A350 (166 units) were the highest ever for each of those segments. Orders for 20 A380s and seven A300 freighters completed Airbus' order intake. At the end of 2005, the Airbus order book amounted to €202 billion based on list prices. This is an increase of 48% over year-end 2004. The order book represents a total of 2,177 commercial aircraft (2004: 1,500).

The A380 is on track for certification, with the first delivery scheduled for the end of 2006. Airbus has already successfully completed 1.000 hours of flight testing with its four flying A380s and has received 159 firm orders from 16 customers to date, including three new customers in 2005. Launched in October, the A350 has received 172 firm orders and commitments from 13 customers by the end of 2005.

The **Military Transport Aircraft** Division's EBIT* grew to €48 million (FY 2004: €26 million). This surge reflects the successful operations and the completed restructuring in the previous year. Revenues decreased to €763 million (FY 2004: €1,304 million) due to a shift of a revenue recognition milestone on the A400M programme worth €539 million to the first quarter of 2006. Since then, such internal milestone was successfully passed in February 2006 on schedule. South Africa's and Malaysia's orders for the A400M raised the aircraft's firm orders to 192 in early 2006. Additionally, Chile indicated its intention to purchase up to three A400Ms. The production phase is already underway and the construction of the final assembly line in Seville, Spain is well advanced. In the medium-light aircraft segment, the Division achieved 16 new orders for its CN-235 and C-295. This includes twelve units for Brazil, which also contracted for the modernization of eight mission aircraft.

The Division's order book increased by 5% to €21 billion (2004: €19.9 billion). EADS MTA led AirTanker was designated preferred bidder for the UK tanker programme in 2005. In preparation for a US tanker competition, EADS has teamed with Northrop Grumman to supply the most advanced tanker aircraft to the US Air Force. Moreover, EADS has partnered with Raytheon for the tender on the US Future Cargo Aircraft (FCA) programme.

Eurocopter maintained its global leadership in the civil and parapublic sector, while achieving progress in military business and expanding its international presence. EBIT* grew to €212 million (FY 2004: €201 million) while revenues increased by 15% to €3,211 million (FY 2004: €2,786 million). The higher revenues were mainly due to a strong increase in helicopter deliveries (334 versus 279 in 2004) and the first time consolidation of Australian Aerospace. The lower EBIT* margin resulted from a less favourable business mix and hedging impact as well as higher R&D expenditure.

In 2005, the Division received new orders for 401 helicopters (FY 2004: 332), thereof 71% from outside the European home markets. The NH90 multi-role transport helicopter attracted three new customers: Belgium, New Zealand and Spain. At the end of 2005, the Eurocopter order book amounted to €10 billion (2004: €9.1 billion).

The creation of the Eurocopter Spain entity, the building of the new industrial site in Albacete, Spain and the NH90 selection confirmed Spain as Eurocopter's third home market. Significant progress was also made in high-growth Asia. Eurocopter and China agreed on the joint development of a new six-to-seven-ton transport helicopter. In South Korea, traditionally a US dominated market, the government entrusted Eurocopter and KAI with the development of the country's first military utility helicopter. In the US civil market, Eurocopter continued to lead. To develop its North American defence business, Eurocopter teamed up with Sikorsky Aircraft for the US Army's Light Utility Helicopter (LUH) programme.

The **Space** Division made further strides improving profitability and reached a substantially higher EBIT* of €58 million (FY 2004: €9 million). The improvement reflects growth despite a continued difficult business environment, combined with the positive impact of the lower cost base following the already completed restructuring. Revenues expanded to €2,698 million (FY 2004: €2,592 million) with all business units contributing to this growth. Revenues were driven by the delivery of telecommunication satellites and the Ariane 5 production ramp-up as well as the step up in Paradigm service revenues. Five Ariane 5 launchers successfully took off to space, among them two of the new ten-ton version. In 2005, EADS SPACE Transportation fulfilled for the first time its new role as main contractor for the Ariane 5.

Major orders for EADS Astrium include contracts from South Korea covering a multi-mission geo-stationary satellite and from the European Space Agency for an earth observation programme. Germany selected EADS as preferred bidder for its defence satellite communications system. The development of Europe's Galileo satellite navigation system was confirmed with the agreement on the first four satellites. The Galileo contract was signed in January 2006 and will strengthen EADS' space activities. At year-end 2005, the Division's order book stood at €10.9 billion (2004: €11.3 billion). The acquisition of Dutch Space, the Netherlands' largest space company, also further enhanced the scale of the Group's space business and made EADS the only space company covering five nations.

The **Defence & Security Systems** Division had a strong year for deliveries and new orders and strengthened its capabilities in growth areas. Driven largely by Eurofighter and missile programmes revenues grew organically by 5% to €5,636 million (FY 2004: €5,385 million). EBIT* decreased to €201 million (FY 2004: €226 million). This decrease results from the one-off release of a litigation provision in 2004 and charges for Unmanned Aerial Vehicle (UAV) activities in 2005 and was nearly compensated by a better operational performance.

Substantial contracts included India's order for Exocet missiles, Spain's order for the Taurus air-to-ground missile and an order for Eurofighter self-protection electronics as well as confirmation of the Romanian border surveillance contract. EADS/LFK and MBDA were awarded a part in designing and developing the tri-national Medium Extended Air Defense System (MEADS). The order book rose by 7% to €18.5 billion at year-end 2005 (2004: €17.3 billion) and provides considerable prospects for revenue growth in the years to come.

Adding capabilities in growth sectors, the Division acquired Nokia's Professional Mobile Radio (PMR) business, making EADS a competitive global secure telecommunications player. In addition, EADS and ThyssenKrupp Technologies jointly acquired naval electronics provider Atlas Elektronik. This significantly strengthens the Group's position in maritime electronics and systems in the future, with no impact in 2005 financial statements. Enhanced integration of the Division's central functions will increase efficiency by creating synergies and cost savings for Defence & Security Systems.

Headquarters and Other Businesses (not belonging to any Division)

At EADS Headquarters, EBIT* improved thanks to a higher contribution from the 46.30% stake in Dassault Aviation.

The EBIT* of Other Businesses (ATR, EADS EFW, EADS Socata and EADS Sogerma Services) accounted for a negative €171 million (FY 2004: positive €2 million) with positive contributions from ATR, EADS EFW and EADS Socata. EADS Sogerma Services' EBIT* loss widened by €198 million compared to 2004. This result is due to operational losses, impairment of assets and restructuring. The target is to achieve a turnaround as soon as possible subject to a restructuring plan to be decided in the next month.

Economic growth and the demand for highly efficient regional aircraft led to a recovery in the turbo-prop market. With 80 orders, ATR was the global market leader in this segment in 2005. At year-end, the order book amounted to €707 million.

EADS EFW increased the number of freighter conversions carried out to 14 up from 8 in the previous year. In its aerostructures business, EADS EFW also benefited from the ramp-up of Airbus production rates. EADS EFW's order book stood at €384 million at year-end 2005, mainly related to 43 freighter conversions.

Other Businesses achieved revenues of €1,155 million (FY 2004: €1,123 million). At the end of 2005, the order book of Other Businesses strongly increased to €2.1 billion (2004: €1.1 billion).

5.2 Company Financial Statements

Table 6: Balance Sheets of the Company Financial Statements

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

Table 7: Income Statements of the Company Financial Statements

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

6. Financial targets for 2006

EADS expects its 2006 revenues to grow to more than €37 billion (FY 2005: €34.2 billion), powered by the progression of Airbus deliveries and higher volume from its combined defence businesses. Airbus deliveries are expected to grow by at least 10% in 2006. EADS uses a planning rate of €1 = US$ 1.30.

EBIT* is expected to grow to between €3.2 billion and €3.4 billion (FY 2005: €2.85 billion), mainly under the influence of the higher Airbus volume, but also due to better operational efficiencies across all divisions, despite higher R&D costs and the continuing US Dollar headwind arising from the maturity of less attractive hedges.

Consistent with the strong cash flow generation in 2005, Free Cash Flow before Customer Financing is expected to remain robust in 2006, despite the build up of inventories related to the delivery ramp-up, particularly for the A380.

2006 EPS are expected to grow to between €2.35 and €2.55 (FY 2005: €2.11), based on an expected average of around 795 million shares and on a US Dollar year-end closing rate similar to 2005.

7. EADS Strategic challenges

7.1 Group strategic challenges

Challenges and Opportunities ahead

Since the creation of EADS, Group integration has been successfully completed, and a new management structure was implemented during 2005. EADS has launched major programmes, and entered new business segments and international markets. The Group has 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 Euro against the Dollar is increasingly detrimental, and high oil prices put EADS' customers under pressure. Traditional EADS home markets are not growing at the same pace as Asia. Additionally, 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. After a record year of recovery in 2004 at 14% growth, 2005 was approximately 7.5% for global air travel. The long-term growth trend will, according to EADS estimations, average around 5.2% during the next 20 years. The market is currently in an up swing, but EADS faces the competitor's aggressiveness as Airbus market leadership has put Boeing in a challenger role.

The helicopter market is characterised by a stable growing commercial and parapublic business, in which Eurocopter is leading. Military markets are increasingly important, as key programmes enter production, especially in Europe.

In Defence, budgets remain under pressure. Upside potential through new governmental priorities for Defence and Homeland Security, as well as Service offering, will partly compensate for the trend and create opportunities for EADS in all key countries. Additionally, EADS will carefully monitor consolidation perspectives in the European defence industry as well as all strategic options to secure its position and develop business in areas of core interest, as recently done with the joint acquisition of Atlas in the frame of ongoing naval consolidation.

For Space, a stable and predictable yearly growth of 2.5% until 2010 in institutional business is secured. Military programmes and Services add upside potential for EADS. Commercial – launcher and satellite - markets remain very difficult with many players in a global competitive market.

Strategic Goals to sustain continuous Growth and Profitability improvements

EADS' long-term target is to be the global leader in Aerospace and Defence by 2015 with leadership in Products, Performance, Profitability and Global Presence. Therefore, EADS' future success will be based on the ability to deliver profitable growth even during difficult times. EADS' success in the coming years will be measured through the following four overarching targets:

Maintain long-term parity in commercial aircraft: EADS will continue to lead innovation and to deliver to customers' satisfaction, as well as further developing its business model towards more international partnerships in order to stay ahead of the competition.

Develop strong growth drivers in defence, space and civil helicopters: There are no easy solutions to the growth challenge as governmental budgets are stagnating, and new programmes in Europe are becoming scarce. Nevertheless, growth will be pursued through a global approach, selected M&A targets, building new solutions to the customers specifically in the domains of Defence and Global Security and using EADS' broad base of capabilities and products.

Become a truly global industrial group: This is a must to access the growth potential of markets where the traditional commercial approach has reached limits. EADS is designing a long-term industrial strategy and implementing an industrial footprint in all significant markets.

Achieving best-in-class profitability: EADS seeks to reach its long-term strategic goals, while achieving best-in-class profitability, in every segment it operates in. The Group has already increased its EBIT*margin from 5.1% in 2001 to 8.3% in 2005 – its highest ever EBIT* margin level – and is on track for further improvement.

To achieve its strategic goals and improve profitability, EADS management has identified and will pursue three main growth and profitability drivers. These are defined as the **Triple I's** of EADS: Internationalisation, Innovation and Improvement.

Internationalisation – Becoming a Global Industrial Group

EADS has so far successfully built a European industrial group with more than 55% of sales outside Europe. In some countries a global Group industrial presence is decisive and conclusive. This needs to be orchestrated at the Group level to allow for anticipation, cohesiveness and synergies between Business Units.

Therefore, EADS' target is to be a strong local player in all key markets such as the US, China, Russia, South Korea and India. A long-term vision and an industrial footprint in these countries are aiming at gaining long-term market access, while benefiting from high market growth potential, technology potential and also structural cost advantage, natural hedging and risk-sharing opportunities whenever possible. This is also a way to contain both local and foreign competitors. EADS will continue to evolve with the global industrial and commercial landscape in order to dedicate the necessary focus on all countries with significant potential e.g. Brazil, Turkey, Poland, Australia...

In the US, the goal is firmly to 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, developing transatlantic co-operations, acquiring small/ mid-sized Defence companies and cooperating with US primes. In 2005, key agreements were reached: MTAD with Raytheon for the Future Cargo Aircraft campaign, Northrop Grumman for KC-30 Tanker (including the decision to set up a final assembly line in Alabama) and Eurocopter with Sikorsky for the Light Utility Helicopter programme.

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

In South Korea, after a long competition, Eurocopter has been selected to develop with KAI a brand-new helicopter (8 tons) for military transport. This is an excellent basis on which to expand EADS' position in the country.

India has already proven a booming market for commercial opportunities (211 net orders in 2005 [20% of total orders] from Kingfisher, Air Deccan, Indigo and Jet Airways). Now the challenge is to use the opening to follow with defence, which represents the largest share of India's market potential.

The development of Russia's economy is promising, and the Russian aerospace and defence industry is gaining new strength through restructuring and consolidation. EADS has therefore in 2005 acquired a 10% stake in Irkut, a key player in the future industrial landscape.

Innovation – Focus on all aspects of Technology and offer ground breaking Solutions

Innovation in product, technology, manufacturing and customer offering will define what EADS will become 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 and to cover a broad spectrum of capabilities.

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 2005, EADS has spent approximately €2.1 billion in self-financed research and development, equivalent to over 6% of 2005 revenues. EADS management is of the firm opinion that this is paying off in terms of competitive position and is resulting in return on investment. EADS judges this long-term view as important for growth in shareholder value.

To maintain its innovative edge, EADS has set challenging targets for technology innovation. Systematic use of the latest digital design and engineering tools will result in the capability to complete major platform developments in short timespans. EADS will become faster at reviewing its core technologies and in creating or compensating for gaps against the competition.

EADS will focus on screening of disruptive technologies and openness to outside ideas. Consequently, the Group will double the technological programmes developed in cooperation with academic and industrial partners on an international basis.

In Defence, the transformation processes of U.S. and European defence forces and public safety agencies, as well as the need for a more efficient use of defence budgets, have changed customers' demands. Therefore, EADS needs to offer new solutions as lead system/capability integrator for defence and homeland security programmes such as C4ISR, border security, extended air defence, unmanned aerial vehicles and military space.

Next to systems, innovative services solutions are an important area to broaden programme leadership. EADS intends to develop its outsourced service offering further based on the success of Paradigm and the prospects of the FSTA.

Improvement – Delivering EADS' record order backlog on-time – on-quality – on-cost and satisfying the customers in the process.

The importance of delivering what was promised can never be emphasised enough. With a record backlog well above €253 billion, the time to deliver is here, and the backlog needs to be transformed into benchmark profitability.

Improvement is about raising EADS' operational performance. It will be measured in time, cost and quality performance, both within EADS and in its key suppliers. Actions will involve people, processes and IT tools – elements carried out in parallel.

Integrated planning and execution processes and tools will support real-time visibility of the status of all operational parts and data flows in EADS and its key suppliers enabled by proven, closed-loop collaborative processes and tools, to support effective decision making and to enable the launch of early recovery actions.

Development of mature products, on-time, on-quality and on-cost will be fully supported by best of breed computer-aided engineering, simulation and product data management tools.

Successful implementation and execution of Improvement plans and projects through all divisions and corporate functions will therefore be given highest priority in the years to come.

7.2 Divisions Outlook

7.2.1 Airbus

Airbus's existing order backlog alone will lead to deliveries rising by more than 10% in 2006 and continuing at a high level for the next few years.

Furthermore, with the full implementation of the "route 06" cost savings programme and additional continuous efficiency improvements, Airbus is preparing to confront an anticipated deterioration in the Euro/Dollar hedging rate from 2007.

While 2005 orders were exceptionally high, Airbus is optimistic it can maintain the record level of the order backlog throughout 2006 given the strength of Asian demand. This would keep visibility on future deliveries consistently high through to the year end. Looking further forward, US airlines did not participate in 2005's surge in orders, but are expected to invest in new more fuel-efficient aircraft at some point in the next few years.

7.2.2 Military Transport Aircraft

The Division's range of military transport aircraft is well suited to the needs of governments seeking to re-equip their air forces and other services. With its superior load capacity, speed and capability for low-altitude tactical flights, the A400M is beginning to win export orders and is an obvious choice for governments looking to replace their ageing fleets of heavy transport aircraft.

The Division is bidding for a number of large contracts. MTA expects 2006 will see the Air Tanker consortium land an order from the UK Government for the €14 billion Future Strategic Tanker Aircraft programme covering 14 A330 MRTTs. In the United States, it is in bidding partnerships with Northrop Grumman and Raytheon in particular for the Tanker replacement programme and for Army and Air Force jointly procured Future Cargo Aircraft. Finally, Portugal's early 2006 order of 12 C-295 aircraft is proving the leadership position of MTAD in medium and light transport aircraft business.

Looking forward over the next few years, the Division will deliver higher revenues and EBIT*. Both the A400M and tankers will make a substantial contribution to the expansion. Additionally, the Division is in a strong position to expand its order book in medium and light military transport aircraft.

7.2.3 Eurocopter

Eurocopter faces the future with a competitive and comprehensive product range, a large forward order book and a strong strategic position. A number of major sales campaigns are under way. Notably, the Division is offering highly competitive new generation military helicopters and services at a time when demand for procurements such as the U.S. Army Light Utility Helicopter programme is growing. Eurocopter's well-balanced portfolio of activities and the size of the "in service" fleet reduce the financial risks associated with new helicopter market cycles.

Strategically, Eurocopter's proven ability to implement international co-operation agreements in rapidly growing markets is bolstering its order book and access to scarce resources. Meanwhile, Eurocopter intends to protect and enhance its technological edge, the main pre-requisite for sustainable development. Additionally, its ability to offer and certify customized solutions to mission-oriented customers will remain strategically valuable.

In 2006, Eurocopter anticipates further growth in turnover and profitability, and plans to consolidate its worldwide market leadership. Longer term, this growth should be sustained, with a greater contribution from higher military sales where demand is expected to expand steadily.

7.2.4 Defence and Security Systems ("DS")

Building on its strong platform business in defence that currently accounts for most of the division's revenues, Defence & Security Systems is implementing a strategy of further enhancing its security activities. While Eurofighter and missile contracts form the backbone of the order book, a strong focus lies on adding to capabilities in command & control systems, maritime systems, global security and secure communications, where EADS sees opportunities for growth in the medium term.

Reorganisation of the division will improve access to markets and optimised interfaces with home markets. Integration of central functions at divisional level is reducing cost, and will continue to enhance profitability. Additionally, Defence and Communication Systems (DCS), Defence Electronics (DE) and Military Air Systems (MAS) received optimised structures, which, together with the integration of LFK into MBDA missile business, will further pave the way for greater efficiency.

In 2006, DS will further shift from development to production of missiles and other products. Additionally, Eurofighter export campaigns may strengthen the order book, and Unmanned Aerial Vehicle (UAV) product development may stimulate customer demand. Looking further, security activities are expected to contribute progressively more to revenues.

7.2.5 Space

As a pioneer in secure satellite communications, the EADS Space Services Business Unit is well-positioned to capture new contracts in this expanding market. Additionally, the Division's commercial businesses have product offerings suited to their customers' evolving needs following qualification of the powerful Ariane 5 ECA 10-ton launcher, the proven reliability of its modular Eurostar 3000 satellites and agreement to develop the high-performance Alphabus satellite. Finally, the institutional outlook is stable after the European Space Agency (ESA) Ministerial Council meeting of December 2005 agreed budgets for the next four years, and the Galileo project continues to indicate Europe's determination to maintain independent access to space.

In the year ahead, the Division will continue to grow revenue and EBIT*. EADS Space Transportation and EADS Space Services will lead a robust expansion in revenue. Cost improvements in Astrium and Space Transportation, planned from streamlining operations and improved efficiencies in supply chains, will create better margins. These improvements in revenue and margins will feed through to higher EBIT*.

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.

First 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 and the proposed policy for the remuneration for the Members of the Board as described in this Board Report.

Second and third resolutions

We propose that this AGM approves the audited accounts for 2005 and resolves that the net profit of €1,676 million, as shown in the audited company income statement for the financial year 2005, shall be added to retained earnings and that a payment of a gross amount of €0.65 per share shall be made to the shareholders from distributable reserves on 1st June, 2006.

Fourth 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 2005.

Fifth resolution

We recommend that the Company's auditors for the financial year 2006 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.

Sixth 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 2007, including specific powers to approve LTIP as well as ESOP plans, since the previous authorisation expires at the end of this AGM.

The Company anticipates a possible implementation of a LTIP in 2006. Such a plan would have to be formally approved by the Board.

The Company also anticipates implementing an ESOP in 2006. It would again have to be formally approved by the Board.

Seventh resolution

We propose that this AGM approves the cancellation of the shares repurchased by the Company up to a maximum amount of 6,656,970 shares, to compensate the dilution effect resulting from the issuance of shares for the purpose of the ESOP 2005 and the exercise of stock options from the SOPs 2000, 2001 and 2002 in 2005.

Eighth 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. The above authorisation will supersede and replace the authorisation granted by the AGM on 11th May 2005. The purposes of the share buy-back programmes to be implemented by EADS will be determined on a case-by-case basis by the Board according to needs and possibilities. For additional information on EADS' share buy-back programmes including their purposes, characteristics and status the reader should refer to the EADS web-site at www.eads.com (Investor Relations) and to the documents filed with and/or approved by the relevant stock exchange authorities posted thereon.

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

Consolidated Financial Statements (IFRS)

1. Consolidated Income Statements (IFRS)

For the years 2005, 2004 and 2003

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

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

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

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

2. Consolidated Balance Sheets (IFRS)

(in €m)

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

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

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

3. Consolidated Statements of Cash Flows (IFRS)

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

The following represents supplemental information with respect to cash flows:

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

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

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).
For details, see Note 27, "Consolidated Statement of Cash Flows (IFRS)".

4. Consolidated Statements of Changes in Equity (IFRS)

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

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

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

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

Notes to the Consolidated Financial Statements (IFRS)

Basis of Presentation

1. The company

The accompanying Consolidated Financial Statements present the financial position and the result of the operations of **European Aeronautic Defence and Space Company EADS N.V.** and its subsidiaries ("EADS" or the "Group"), a Dutch public limited liability company (Naamloze Vennootschap) legally seated in Amsterdam (Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, The Netherlands). EADS' core business is the manufacturing of commercial aircraft, civil helicopters, commercial space launch vehicles, missiles, military aircraft, satellites, defence systems and defence electronics and rendering of services related to these activities. The Consolidated Financial Statements were authorised for issue by EADS' Board of Directors on 7th March 2006 and are prepared and reported in Euro ("€").

2. Summary of significant accounting policies

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

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

New Standards

End of March 2004, the IASB completed Phase I of its ongoing Business Combinations Project and adopted new IFRS 3 "Business Combinations", superseding IAS 22 "Business Combinations", as well as revised Standards IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets". EADS decided to early adopt IFRS 3, revised IAS 36 and IAS 38 and to apply these standards as of 1st January 2004. Besides the revisions of thirteen IAS in conjunction with the Improvements Project (published in December 2003) the IASB released in 2004 five more standards, five interpretations as well as amendments/revisions. In 2005 the IASB released one new Standard, two interpretations as well as amendments/revisions as listed below. The Standards and Interpretations printed in italic have a later effective date and are not yet adopted. All other Standards and Interpretations listed below were adopted by EADS and are applied to the Group's Consolidated Financial Statements for the accounting period beginning on 1st January 2005. Except for IFRIC 4 "Determining whether an Arrangement contains a Lease" (released 2004) and the April 2005 Amendment ("Cash Flow Hedge Accounting of Forecast Intragroup Transactions") to IAS 39 "Financial Instruments: Recognition and Measurement", EADS has decided not to opt for early adoption of any of the new, revised or amended standards or interpretations before they become effective.

Improvements Project (2003) :

IAS 1 Presentation of Financial Statements

IAS 2 Inventories

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10 Events after Balance Sheet Date

IAS 16 Property, Plant and Equipment

IAS 17 Leases

IAS 21 The Effects of Changes in Foreign Exchange Rates

IAS 24 Related Party Disclosure

IAS 27 Consolidated and Separate Financial Statements

IAS 28 Investments in Associates

IAS 31 Interests in Joint Ventures

IAS 33 Earnings per Share

IAS 40 Investment Property

New Standards:

IFRS 2 Share-based Payment (released 2004)

IFRS 3 Business Combinations (released 2004)

IFRS 4 Insurance Contracts (released 2004)

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

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

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

New Interpretations:

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

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

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

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

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

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

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

Amendments / Revisions:

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

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

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

IAS 36 Impairment of Assets (March 2004)

IAS 38 Intangible Assets (March 2004)

IAS 39 Financial Instruments: Recognition and Measurement
- Revision (December 2003)
- Amendment (March 2004) Fair Value Hedge Accounting for Portfolio Hedge of Interest Rate Risk
- *Amendment (December 2004) Transition and Initial Recognition of Financial Assets and Financial Liabilities*
- Amendment (April 2005) Cash Flow Hedge – Accounting of Forecast Intragroup Transactions
- *Amendment (June 2005) The Fair Value Option*
- *Amendment (August 2005) Financial Guarantee Contracts*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity occurring after 31st December 2004 are treated as assets and liabilities of the acquired company and are recorded at the exchange rate at the date of the transaction. Regarding transactions prior to that date, goodwill, assets and liabilities acquired are treated as those of the acquirer.

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

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

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

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

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

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less depreciation (see Note 13 "Property, plant and equipment"). Rental income from operating leases (e.g. aircraft) is recorded as revenue over the term of the lease. Assets leased out under finance leases cease to be recognised in the Consolidated Balance Sheet after the inception of the lease. Instead, a finance lease receivable representing the discounted future lease payments to be received from the lessee plus any discounted unguaranteed residual value is recorded as long-term financial assets (see Note 14 "Investments in associates, other investments and long-term financial assets"). Unearned finance income is recorded over time in "Interest result". Revenues and the related cost of sales are recognised at the inception of the finance lease.

Assets obtained under finance leases are included in property, plant and equipment at cost less depreciation (see Note 13 "Property, plant and equipment"), unless such assets have been further leased out to customers. In such a case, the respective asset is either qualified as an operating lease or as a finance lease with EADS being the lessor (headlease-sublease-transactions) and is recorded accordingly. For the relating liability from finance leases see Note 22 "Financial liabilities". When EADS is the lessee under an operating lease contract, rental payments are recorded when they fall due (see Note 29 "Commitments and contingencies" for future operating lease commitments). Such leases often form part of commercial aircraft customer financing transactions with the related sublease being an operating lease (headlease-sublease-transactions).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Inventories — Inventories are measured at the lower of acquisition cost (generally the average cost) or manufacturing cost and net realisable value. Manufacturing costs comprise all costs that are directly attributable to the manufacturing process, such as direct material and labour, and production related overheads (based on normal operating capacity and normal consumption of material, labour and other production costs), including depreciation charges. Borrowing costs are not capitalised.

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

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

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

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

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", derivative financial instruments are recognised and carried in the Consolidated Balance Sheet at fair value. While derivative financial instruments with positive fair values are recorded in current and non-current other assets, such derivative financial instruments with negative fair values are recorded as "Provisions for financial instruments".

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

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

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

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

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

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

In case certain derivative transactions, while providing effective economic hedges under the Group’s risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39 “Financial Instruments: Recognition and Measurement“, changes in fair value of such derivative financial instruments are recognised immediately in “Profit for the period”.

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

See Note 30 “Information about financial instruments” for a description of the Group’s financial risk management strategies, the fair values of the Group’s derivative financial instruments as well as the methods used to determine such fair values.

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

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

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

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

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

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

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

When sufficient information is not available to apply defined benefit accounting in conjunction with a defined benefit multi-employer plan, the Group accounts for the plan as if it was a defined contribution plan.

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

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

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

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

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

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

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

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

Equity compensation plans

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

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

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

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

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

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

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

3. Scope of consolidation

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

- 228 companies which are fully consolidated,
- 21 companies which are proportionately consolidated,
- 21 companies which are investments in associates and are accounted for using the equity method.

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

4. Acquisitions and disposals

a) Acquisitions

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

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

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

b) Disposals

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

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

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

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

Notes to the Consolidated Statements of Income (IFRS)

5. Segment Reporting

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

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

The following tables present information with respect to the Group's business segments. Consolidation effects, the holding function of EADS Headquarters and other activities not allocable to the divisions are disclosed in the column "HQ / Conso.". "Other Businesses" comprises the development, manufacturing, marketing and sale of regional turboprop aircraft and light commercial aircraft, aircraft components as well as civil and military aircraft conversion and maintenance services.

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

(in €m)	Airbus	Military Transport Aircraft	Euro-copter	Defence & Security Systems	Space	Other Businesses	HQ/ Conso.	Conso-lidated
Total revenues	22,179	763	3,211	5,636	2,698	1,155	33	35,675
Internal revenues	(238)	(234)	(134)	(509)	(10)	(329)	(15)	(1,469)
Revenues	**21,941**	**529**	**3,077**	**5,127**	**2,688**	**826**	**18**	**34,206**
Income from associates	0	0	0	4	0	0	206	210
EBIT pre goodwill impairment and exceptionals (see definition below)	2,307	48	212	201	58	(171)	197	2,852
Exceptionals								(140)
Total finance costs								(177)
Income taxes								(825)
Profit for the period								1,710
Attributable to:								
Equity holders of the parent (Net income)								1,676
Minority interest								34
Other information								
Identifiable segment assets (incl. goodwill) (1)	33,226	1,642	4,076	9,287	4,911	1,320	2,543	57,005
thereof goodwill	6,987	12	111	2,469	559	0	29	10,167
Investments in associates	0	0	0	31	0	10	1,867	1,908
Segment liabilities (2)	20,274	1,581	3,076	9,854	4,393	977	3,883	44,038
Capital expenditures (incl. leased assets)	1,864	93	79	205	467	64	86	2,858
Depreciation, amortization	1,131	41	68	146	117	55	95	1,653
Research and development expenses	1,659	18	70	207	58	6	57	2,075

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

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

(in €m)	Airbus	Military Transport Aircraft	Euro-copter[4]	Defence & Security Systems	Space	Other Businesses[4]	HQ/ Conso.	Conso-lidated
Total revenues	20,224	1,304	2,786	5,385	2,592	1,123	31	33,445
Internal revenues	(621)	(227)	(121)	(424)	(10)	(268)	(13)	(1,684)
Revenues	**19,603**	**1,077**	**2,665**	**4,961**	**2,582**	**855**	**18**	**31,761**
Income from associates	7	0	0	3	0	0	78	88
EBIT pre-goodwill impairment and exceptionals (see definition below) [1]	1,919	26	201	226	9	2	49	2,432
Exceptionals								(217)
Total finance costs								(330)
Income taxes								(664)
Profit for the period								1,221
Attributable to:								
Equity holders of the parent (Net income)								1,203
Minority interest								18
Other information								
Identifiable segment assets (incl. goodwill) [2]	35,044	1,051	3,649	9,076	3,841	1,324	2,143	56,128
thereof goodwill	6,883	12	111	2,407	559	0	29	10,001
Investments in associates	0	0	0	24	0	9	1,705	1,738
Segment liabilities [3]	17,019	881	2,701	9,253	3,471	750	3,575	37,650
Capital expenditures (incl. leased assets)	2,778	49	92	174	423	85	72	3,673
Depreciation, amortization	1,088	34	52	139	110	54	144	1,621
Research and development expenses	1,734	26	61	185	61	7	52	2,126

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

As a rule, inter-segment transfers are carried out on an arm's length basis. Inter-segment sales predominantly take place between Eurocopter, Defence & Security Systems and Airbus; as the Eurocopter and Defence & Security Systems divisions act as suppliers for Airbus aircraft. Moreover, Airbus acts as a main supplier for the A400M program which is led by the Military Transport Aircraft division. Capital expenditures represent the additions to property, plant and equipment and to intangible assets (excluding additions to goodwill of €168 million; for further details see Note 5 e) "Capital expenditures".

c) EBIT pre-goodwill impairment and exceptionals

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

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

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

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

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

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

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

d) Revenues by destination

(in €m)	2005	2004	2003
France	3,511	3,326	3,521
Germany	3,235	4,322	3,651
United Kingdom	2,682	2,653	2,121
Spain	1,017	1,253	1,000
Other European Countries	3,126	2,974	3,687
North America	9,026	8,715	8,056
Asia/Pacific	7,734	4,938	4,033
Middle East	1,860	2,286	2,873
Latin America	645	505	677
Other Countries	1,370	789	514
Consolidated	**34,206**	**31,761**	**30,133**

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

e) Capital expenditures

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

f) Property, plant and equipment by geographical area

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

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

6. Revenues

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

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

Detail of **Revenues**:

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

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

7. Functional costs

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

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

Personnel expenses are:

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

8. Other income

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

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

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

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

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

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

10. Total finance costs

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

Interest result in 2005 comprises interest income of €476 million (2004: €352 million; 2003: €371 million) and interest expense of €(631) million (2004: €(627) million; 2003: €(574) million). Included in interest income is the return on cash and cash equivalents, securities and financial assets such as loans and finance leases. Interest expense includes interest on European Government refundable advances of €236 million (2004: €245 million) and on financial liabilities.

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

11. Income taxes

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

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

The Group's parent company, EADS N.V., legally seated in Amsterdam, The Netherlands, applies Dutch tax law using an income tax rate of 31.5% for 31st December 2005 (for 2004 and 2003: 34.5%). In December 2005, a new tax law was enacted reducing the income tax rates in 2005 to 31.5%, in 2006 to 29.6% and from 2007 onwards to 29.1%. Accordingly, deferred tax assets and liabilities for the Group's Dutch entities were calculated using the respective enacted rates. All foreign subsidiaries however apply their national tax rates, among others Great Britain 30% and Spain 35%.

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

For the Group's German subsidiaries, income taxes are calculated using a federal corporate tax rate of 25.0% for 31st December 2005, plus (i) an annual solidarity surcharge of 5.5% on the amount of federal corporate taxes payable and (ii) the after federal tax benefit rate for trade tax of 12.125% for 2005. In aggregate, the tax rate applied to German income taxes amounts to 38.5% in 2005 (38.5% at 31st December 2004 and 40.0% at 31st December 2003).

The following table shows a reconciliation from the theoretical income tax expense – using the Dutch corporate tax rate of 31.5% as at 31st December 2005, 34.5% at 31st December 2004 and at 31st December 2003 – to the reported tax expense. The reconciling items represent, besides the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported financial statements according to IFRS rules.

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

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

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

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

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

The amount of the Group's deferred tax assets' allowances is based upon management's estimate of the level of deferred tax assets that will be realized in the future. In future periods, depending upon the Group's financial results, management's estimate of the amount of the deferred tax assets considered realisable may change, and hence the write down of deferred tax assets may increase or decrease. Companies in loss making situations in two or more subsequent years recorded a total deferred tax balance of €83 million. Assessments show that these deferred tax assets will be recovered in future through either (i) own projected profits, or profits of other companies (ii) integrated in the same fiscal group ("regime integration fiscal" in France, "steuerliche Organschaft" in Germany) or (iii) via the "loss surrender-agreement" in Great Britain.

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

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

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

Roll forward of deferred taxes:

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

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

The deferred tax recognised directly in AOCI is as follows:

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

Notes to the Consolidated Balance Sheets (IFRS)

12. Intangible assets

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

Cost

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

Amortisation / Impairment

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

Net book value

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

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

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

Goodwill impairment tests

As in previous periods, EADS performed impairment tests on level of Cash Generating Units (on segment level or one level below). The goodwill is tested annually for impairment in the fourth quarter of the financial year by using cash flow projections based on current operative planning covering a five-years period (in 2004: normally three-years period). These current forecasts are based on past experience as well as on future expected market developments.

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

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

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

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

The assumption for the growth rate used to calculate the terminal value in general amounts to unchanged 2%. Airbus is using for new programs specific business assumptions. Based on these current forecasts and projections of future pre-tax cash-flows the value in use of Cash Generating Units is computed by applying pre-tax discount rates of 11.5% (2004 in the range of: 12.5% to 14%).

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

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

The order book of the Space division as of 31st December 2005 (including satellites, launchers, ballistic missiles and military telecom services) supports the strong revenue increase which is assumed for this division over the operative planning period. The current development of the Skynet V satellites is weighing on EADS Space cash flow until these spacecraft are launched and operated to generate a ramped up level of revenues from the UK Ministry of Defence (MoD). The continuation of Space restructuring program SARA successfully delivered EBIT* turnaround in 2004 and confirmed positive results in 2005 heading towards further increase in profitability.

EADS follows an active policy of foreign exchange risk hedging. As of 31st December 2005 the total hedge portfolio with maturities up to 2011 amounts to 47 billion US$ and covers a major portion of the net exposure expected over the period of the operative planning (2006 to 2010). The average US$/€ hedge rate of the total hedge portfolio until 2011 amounts to 1.12 US$/€. For the determination of the operative planning, management assumed future exchange rates of 1.30 US$/€ and 0.68 GBP/€ to convert in € the portion of future US$ and GBP denominated revenues which are not hedged. Net exposure arises mostly from Airbus and to a lesser extent from Eurocopter, Space and the Defence & Security Systems divisions.

The recoverable amounts based on value in use have exceeded the carrying amounts of the Cash Generating Units under review, indicating no goodwill impairment for 2005 and 2004.

Development Costs

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

13. Property, plant and equipment

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

Cost

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

Depreciation

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

Net book value

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

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

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

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

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

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

The "aircraft under operating lease" include:

(i) Group's sales finance activity in the form of aircraft which have been leased out to customers and are classified as operating leases: They are reported net of the accumulated impairments. These sales financing transactions are generally secured by the underlying aircraft used as collateral (see Note 29 "Commitments and contingencies" for details on sales financing transactions).

The corresponding non-cancellable future operating lease payments (not discounted) due from customers to be included in revenues, at 31st December 2005 are as follows:

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

(ii) Aircraft which have been accounted as "operating lease" because they were sold under terms that include asset value guarantee commitments with the present value of the guarantee being more than 10% of the aircraft's sales price (assumed to be the fair value). Upon the initial sale of these aircraft to the customer, their total cost previously recognised in inventory is transferred to "Other equipment, factory and office equipment" and depreciated over its estimated useful economic life, with the proceeds received from the customer being recorded as deferred income (see Note 26 "Deferred income").

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

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

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

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

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

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

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

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

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

Other investments comprise EADS' investment in various non-consolidated entities, the most significant being at 31st December 2005, investments in Embraer of €106 million (2004: €72 million) and in Patria of €51 million (2004: €50 million) as well as a participation of 10% in Irkut (€54 million), acquired in 2005.

Long-term financial assets of €1,397 million (in 2004: €1,651 million) and the **current portion of long-term financial assets** of €237 million (in 2004: €242 million) encompass mainly the Group's sales finance activities in the form of finance lease receivables and loans from aircraft financing. They are reported net of accumulated impairments. These sales financing transactions are generally secured by the underlying aircraft used as collateral (see Note 29 "Commitments and contingencies" for details on sales financing transactions).

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

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

Finance lease receivables from aircraft financing are as follows:

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

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

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

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

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

15. Inventories

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

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

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

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

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

16. Trade receivables

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

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

Trade receivables are classified as current assets. As of 31st December 2005 and 2004, respectively, €237 million and €77 million of trade receivables are not expected to be collected within one year.

In application of the percentage of completion method, as of 31st December 2005 an amount of €1,489 million (in 2004: €1,313 million) for construction contracts is included in the trade receivables net of advance payments received.

17. Other assets

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

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

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

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

18. Securities

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

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

19. Non-current assets classified as held for sale

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

20. Total equity

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

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

EADS' shares are exclusively ordinary shares with a par value of €1.00. The authorized share capital consists of 3,000,000,000 shares. In connection with the 2005 Employee Stock Ownership Plan (see Note 31 "Share-based payment"), EADS issued 1,938,309 shares (in 2004: 2,017,822), representing a nominal value of €1,938,309 (in 2004: €2,017,822).

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

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

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

The Shareholders' General Meeting of EADS held on 11th May 2005 renewed the authorization given to the Board of Directors to repurchase shares of the Company, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company will not hold more than 5% of the Company's issued share capital. The Group's Board of Directors decided on 3rd June 2005, to set up and implement plans for the repurchase of up to 1,012,500 shares related to ESOP 2005. On 12th December 2005 the Group's Board of Directors decided to set up and implement plans for the repurchase of up to 3,990,880 shares related to the 2005 Stock Option Plan (7th tranche).

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

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

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

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

Share premium mainly results from contributions in kind in the course of the creation of EADS, cash contribution from the Initial Public Offering, capital increases and reductions due to the issuance and cancellation of shares as well as cash distributions to EADS N.V. shareholders. Other reserves include among others retained earnings. Accumulated other comprehensive income consists of all amounts recognised directly in equity resulting from changes in fair value of financial instruments that are classified as available-for-sale or that form part of hedging relationships in effective cash-flow hedges as well as from currency translation adjustments of foreign entities. Treasury shares represent the amount paid for own shares held in treasury.

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

21. Provisions

Provisions are comprised of the following:

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

As of 31st December 2005 and 2004, respectively, €3,900 million and €3,749 million of retirement plans and similar obligations, €472 million and €137 million of financial instruments as well as €2,507 million and €2,188 million of other provisions mature after more than one year.

a) Provisions for deferred compensation

This amount represents obligations that arise if employees elect to convert all or part of their variable remuneration or bonus into an equivalent commitment for deferred compensation.

b) Provisions for retirement plans

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

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

In Germany, EADS introduced a new pension plan (P3) for non executive employees in 2004. Under the new plan, the employer makes contributions during the service period, which are dependent on salary in the years of contribution and years of service. These contributions are converted into components which become part of the accrued pension liability at the end of the year. Accrued benefits under the old plan are considered through an initial component. Total benefits are calculated as a career average over the entire period of service. On an overall basis, the application of the new plan had no significant effect on pension expense for 2004.

Certain employees that are not covered by the new plan receive retirement indemnities based on salary earned in the last year or on an average of the last three years of employment. For executive employees, benefits are depending on final salary at the date of retirement and the time period as executive.

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

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

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

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

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

Change in defined benefit obligations

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

Change in plan assets

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

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

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

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

The defined benefit obligation at the end of the year is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. The increase in the unrecognised actuarial losses results mainly from the decrease in the discount rate for pension obligations in Germany from 4.75% to 4% and in France from 5% to 4%, partially offset by the increase in the assumed inflation rate for Germany from 1.5% to 1.75%.

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

The net amount of €4,006 million (2004: €3,876 million) represents the amount recorded as provision on the balance sheet. The provision contains the funded status, adjusted by actuarial net gains/losses which do not have to be recognised because they do not meet the recognition criteria. Net actuarial gains and losses include both actuarial gains/losses on the defined benefit obligation and the difference between the actual and expected return on plan assets.

The components of the net periodic pension cost, included in "Profit before finance costs and income taxes", are as follows:

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

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

Change in provision for pension obligations

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

c) Financial instruments

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

d) Other provisions

Movements in provisions during the year were as follows:

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

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

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

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

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

22. Financial liabilities

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

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

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

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

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

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

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

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

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

23. Liability for puttable instruments

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

24. Other liabilities

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

The increase in European Governments refundable advances relates mostly to accrued interest. Regarding the interest expense on European Governments refundable advances see Note 10 “Total finance costs”. Due to their specific nature, namely their risk-sharing features and the fact that such advances are generally granted to EADS on the basis of significant development projects, European Governments refundable advances are accounted for by EADS within “Other Liabilities” on the balance sheet including accrued interest.

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

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

25. Trade liabilities

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

26. Deferred income

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

The main part of deferred income is related to sales of Airbus and ATR aircraft that include asset value guarantee commitments and that are accounted for as operating leases (€1,467 million and €1,567 million as of 31st December 2005 and 2004, respectively).

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

27. Consolidated Statement of Cash Flows

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

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

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

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

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

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

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

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

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

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

Other Notes to the Consolidated Financial Statements (IFRS)

28. Litigation and claims

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

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

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

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

29. Commitments and contingencies

Commitments and contingent liabilities

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

Depending on which party assumes the risks and rewards of ownership of a financed aircraft, the assets relating to sales financing are accounted for **on the balance sheet** either as (i) an operating lease (see Note 13 “Property, plant and equipment”) or (ii) a loan from aircraft financing or (iii) a finance lease receivable (see Note 14 “Investments in associates, other investments and long-term financial assets”) or (iv) non-current assets classified as held for sale. As of 31st December 2005, related accumulated impairment amounts to €319 million (2004: €532 million) for operating lease, €396 million (2004: €466 million) for loans and finance lease and €196 million for non-current assets classified as held for sale. As part of provisions for aircraft financial risks €34 million (2004: €33 million) are recorded (see Note 21 d) “Other provisions”).

Certain sales financing transactions include the sale and lease back of the aircraft with a third party lessor under operating lease. Unless the Group has sold down the relating operating lease commitments to third parties, which assume liability for the payments, it is exposed to future lease payments.

Future nominal **operating lease payments** that result from aircraft sales financing transactions are recorded **off balance sheet** and are scheduled to be paid as follows:

(in €m)	
not later than 2006	208
later than 2006 and not later than 2010	989
later than 2010	721
Total	**1,918**
Of which commitments where the transaction has been sold to third parties	(1,092)
Total aircraft lease commitments where EADS bears the risk (not discounted)	**826**

Total aircraft lease commitments of €1,918 million as of 31st December 2005, arise from aircraft head-leases and are typically backed by corresponding sublease income from customers with an amount of €1,364 million. A large part of these lease commitments (€1,092 million as of 31st December 2005) arises from transactions that were sold down to third parties, which assume liability for the payments. EADS determines its gross exposure to such operating leases as the present value of the related payment streams. The difference between gross exposure and the estimated value of underlying aircraft used as collateral, the net exposure, is provided for in full with an amount of €488 million as of 31st December 2005, as part of the provision for aircraft financing risk (see Note 21 d.) “Other provisions”).

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

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

Detail of provisions / accumulated impairments are as follows:

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

Asset value guarantees – Certain sales contracts may include the obligation of an asset value guarantee whereby Airbus or ATR guarantee a portion of the value of an aircraft at a specific date after its delivery. Management considers the financial risks associated with such guarantees to be manageable. Three factors contribute to this assessment: (i) the guarantee only covers a tranche of the estimated future value of the aircraft, and its level is considered prudent in comparison to the estimated future value of each aircraft; (ii) the asset value guarantee related exposure is diversified over a large number of aircraft and customers; and (iii) the exercise dates of outstanding asset value guarantees are distributed through 2019. If the present value of the guarantee given exceeds 10% of the sales price of the aircraft, the sale of the underlying aircraft is accounted for as an operating lease (see Note 13 "Property, plant and equipment" and Note 26 "Deferred income"). In addition, EADS is contingently liable in case asset value guarantees with less than 10% are provided to customers as part of aircraft sales. Counter guarantees are negotiated with third parties and reduce the risk to which the group is exposed. As of 31st December 2005 the nominal value of asset value guarantees provided to airlines, that do not exceed the 10% criteria, amount to €1,054 million, excluding €507 million where the risk is considered to be remote. In many cases the risk is limited to a specific portion of the residual value of the aircraft. The present value of the risk inherent to the given asset value guarantees where a settlement is being considered as probable is fully provided for and included in the total amount of provisions for asset value risks of €647 million (see Note 21 d.) "Other provisions"). This provision covers a potential expected shortfall between the estimated value of the aircraft of the date upon which the guarantee can be exercised and the value guaranteed on a transaction basis taking counter guarantees into account.

Because exercise dates for asset value guarantees are on average in the 10th year following aircraft delivery, asset value guarantees issued in 2005 will generally not be exercisable prior to 2015, and, therefore, an increase in near-term exposure is not expected.

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

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

Pension commitments – EADS has several common investments with BAE Systems, of which the most significant in terms of employees are Airbus and MBDA. In respect of each investment, for so long as BAE Systems remains a shareholder, UK employees may stay in the BAE Systems pensions schemes, which currently qualify as multi-employer defined benefit plans. BAE Systems is applying IFRS as of 1st January, 2005. In accordance with IAS 19, BAE Systems has disclosed for its UK defined pension schemes a net (pre tax) pension liability as of 31st December 2005 in a total amount of GBP 4,659 millions. As participants in the BAE Systems schemes, EADS investments are potentially affected by any shortfall of BAE Systems schemes. However, the agreements between EADS and BAE Systems have the effect of capping the contributions that the investment has to make to the pension scheme for a certain period of time (until July 2011 for Airbus and until December 2007 for MBDA). Any additional contribution would be paid by BAE Systems. EADS is therefore not exposed to increased contribution payments resulting from the pension underfunding during the period of the contribution caps. In the course of 2005, EADS has requested detailed information about these pension schemes. Based on limited information made available, EADS has judged this information not to be sufficient to properly allocate the pension plans' deficit and is therefore not able to reliably determine its participation in any potential future deficit once the period of contribution caps will have expired. Consequently, EADS continues to expense the contributions made to the pension schemes as if the plans were defined contribution plans.

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

Future nominal **operating lease payments** (for EADS as a lessee) for rental and lease agreements (not relating to aircraft sales financing) amount to €1,038 million as of 31st December 2005, and relate mainly to procurement operations (e.g., facility leases, car rentals).

Maturities are as follows:

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

30. Information about financial instruments

a) Financial risk management

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

Market risk

Currency risk – EADS manages a long-term hedge portfolio with a maturity of several years covering its net exposure to 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 rates and interest rates, as applicable.

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

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

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

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

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents at any time to meet its present and future commitments. This is safeguarded by the reported total amount of the Group's cash and cash equivalents, which is further supported by a substantial amount of unused committed credit facility (€3.0 billion as of 31st December 2005). On a daily basis, EADS invests any surplus cash mainly in non-speculative highly liquid financial instruments, such as certificates of deposits, overnight deposits, commercial papers and other money market instruments which are generally short term.

Credit risk

EADS is exposed to credit risk to the extent of non-performance by either its customers (e.g., airlines) or its counterparts with regards to financial instruments. However, the Group has policies in place to avoid concentrations of credit risk and to ensure that credit risk is limited.

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

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

b) Notional amounts

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

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

Year ended 31st December 2005

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

Year ended 31st December 2004

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

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

Year ended 31st December 2005

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

Year ended 31st December 2004

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

c) Fair value of financial instruments

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

The following interest rate curves are used in the determination of the fair value in respect of the financial instruments as of 31st December 2005 and 2004:

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

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

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

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

The fair value of financial liabilities as of 31st December 2005 has been estimated including all future interest payments and also reflects the interest rate as stated in the tables above.

The European Governments refundable advances of €5,293 million (in 2004: €5,119 million) are measured at amortized cost; a fair value can not be measured reliably due to their risk sharing nature and uncertainty about the repayment dates.

The development of the foreign exchange rate hedging instruments recognised in AOCI is as of 31st December 2005 and 2004 as follows (for previous year figures adjustments please refer to Note 2 "Summary of significant accounting policies" – IAS 32 "Financial Instruments"):

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

Financial Assets and Liabilities – Fair values are based on estimates using various valuations techniques, such as present value of future cash flows. However, methods and assumptions followed to disclose data presented herein are inherently judgmental and involve various limitations like estimates as of 31st December 2005 and 2004, which are not necessarily indicative of the amounts that the Company would record upon further disposal/ termination of the financial instruments.

The methodologies used are as follows:

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

Long-term debt; short-term debt – Neither long term nor short term debt is classified as liabilities held for trading and as such accounted for at amortised cost.

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

Currency and Interest Rate Contracts – The fair value of these instruments is the estimated amount that the Company would receive or pay to settle the related agreements as of 31st December 2005 and 2004.

31. Share-based Payment

a) Stock Option Plans

Based on the authorization given to it by the shareholders' meetings (see dates below), the Group's Board of Directors approved (see dates below) stock option plans in 2005, 2004, 2003, 2002, 2001 and 2000. These plans provide to the members of the Executive Committee as well as to the Group's senior management the grant of options for the purchase of EADS shares.

For the 2005 stock option plan, analogous to all of EADS' previous existing stock option plans, the granted exercise price was exceeding the share price at grant date.

In 2005, compensation expense for Stock Option Plans was recognised with an amount of €24 million (2004: €12 million). The Fair Value of one Option granted under the plan was 7,27 € as of grant date.

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

Input parameters for the Black Scholes Option Pricing Model

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

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

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

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

	First Tranche	Second Tranche	Third Tranche
Date of shareholders' meeting	24th May , 2000	24th May, 2000	10th May, 2001
Date of Board of Director meeting (grant date)	26th May, 2000	26th October, 2000	12th July, 2001
Number of options granted	5,324,884	240,000	8,524,250
Number of options outstanding	2,440,381	104,350	5,288,723
Total number of eligible employees	850	34	1,650
Exercise Date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options; moreover, the options may not be exercised during a period of 3 weeks preceding each annual general meeting of shareholders or the date of announcement of annual or semi-annual results or quarterly figures.		
Expiry date	Tenth anniversary of the date of the grant of the option		
Conversion Right	One option for one share		
Vested	100%	100%	100%
Exercise Price	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	2,179,019	119,650	2,069,027

	Fourth Tranche	Fifth Tranche	Sixth Tranche
Date of shareholders' meeting	10th May , 2001	6th May, 2003	6th May, 2003
Date of Board of Director meeting (grant date)	9th August, 2002	10th October , 2003	8th October , 2004
Number of options granted	7,276,700	7,563,980	7,777,280
Number of options outstanding	4,359,189	6,493,005	7,699,060
Total number of eligible employees	1,562	1,491	1,495
Exercise Date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options; moreover, the options may not be exercised during a period of 3 weeks preceding each annual general meeting of shareholders or the date of announcement of annual or semi-annual results or quarterly figures. As regards to the sixth tranche, part of the options granted to the top EADS Executives are performance related.		
Expiry date	Tenth anniversary of the date of the grant of the option		
Conversion Right	One option for one share		
Vested	100%	50%	0%
Exercise Price	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	2,672,036	885,125	0

	Seventh Tranche
Date of shareholders' meeting	May 11th, 2005
Date of Board of Director meeting (grant date)	December 9th, 2005
Number of options granted	7,981,760
Number of options outstanding	7,981,760
Total number of eligible employees	1,608
Exercise Date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options; moreover, the options may not be exercised during a period of 3 weeks preceding each annual general meeting of shareholders or the date of announcement of annual or semi-annual results or quarterly figures. As regards to the seventh tranche, part of the options granted to the top EADS Executives are performance related.
Expiry date	Tenth anniversary of the date of the grant of the option
Conversion Right	One option for one share
Vested	0%
Exercise Price	Euro 33.91
Exercise Price Conditions	110% of fair market value of the shares at the date of grant
Number of exercised options	0

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

First & Second Tranche	Number of Options				
	Options granted	Balance at 1st January	Exercised	Forfeited	Balance at 31st December
2000	5,564,884	-	-	(189,484)	5,375,400
2001	-	5,375,400	-	-	5,375,400
2002	-	5,375,400	-	-	5,375,400
2003	-	5,375,400	-	(75,000)	5,300,400
2004	-	5,300,400	(90,500)	(336,000)	4,873,900
2005	-	4,873,900	(2,208,169)	(121,000)	2,544,731

Third Tranche	Number of Options				
	Options granted	Balance at 1st January	Exercised	Forfeited	Balance at 31st December
2001	8,524,250	-	-	(597,825)	7,926,425
2002	-	7,926,425	-	-	7,926,425
2003	-	7,926,425	-	(107,700)	7,818,725
2004	-	7,818,725	-	(328,500)	7,490,225
2005	-	7,490,225	(2,069,027)	(132,475)	5,288,723

Fourth Tranche	Number of Options				
	Options granted	Balance at 1st January	Exercised	Forfeited	Balance at 31st December
2002	7,276,700	-	-	(600)	7,276,100
2003	-	7,276,100	-	(70,125)	7,205,975
2004	-	7,205,975	(262,647)	(165,500)	6,777,828
2005	-	6,777,828	(2,409,389)	(9,250)	4,359,189

Fifth Tranche	Number of Options				
	Options granted	Balance at 1st January	Exercised	Forfeited	Balance at 31st December
2003	7,563,980	-	-	-	7,563,980
2004	-	7,563,980	(9,600)	(97,940)	7,456,440
2005	-	7,456,440	(875,525)	(87,910)	6,493,005

Sixth Tranche	Number of Options				
	Options granted	Balance at 1st January	Exercised	Forfeited	Balance at 31st December
2004	7,777,280	-	-	-	7,777,280
2005	-	7,777,280	-	(78,220)	7,699,060

Seventh Tranche	Number of Options				
	Options granted	Balance at 1st January	Exercised	Forfeited	Balance at 31st December
2005	7,981,760	-	-	-	7,981,760
Total	**44,688,854**	**-**	**(7,924,857)**	**(2,397,529)**	**34,366,468**

b) Employee Stock Ownership Plan (ESOP)

In 2005, the Board of Directors approved an additional ESOP following five ESOPs established in 2004, 2003, 2002, 2001 and in 2000. For the 2005 ESOP, eligible employees were able to purchase a maximum of 500 shares per employee of previously unissued shares. The offer was broken down into two tranches which were available for all employees to choose. The subscription price for tranche A was €18.86. The subscription price for tranche B was the higher of the subscription price for tranche A or 80% of the average opening market price for EADS shares on the Paris stock exchange over the twenty trading days preceding 3rd June, 2005, resulting in a subscription price of €18.86.

During a lockup period of at least one year under tranche A or five years under tranche B, employees are restricted from selling the shares, but have the right to receive all dividends paid as well as have the ability to vote at the annual shareholder meetings. EADS sold 1,938,309 ordinary shares with a nominal value of €1 under both tranches. Compensation expense was recognised in connection with the ESOP 2005 of €9 million.

32. Related party transactions

Related parties – The Group has entered into various transactions with related companies in 2005, 2004 and 2003 that have all been carried out in the normal course of business. As is the Group's policy, all related party transactions have to be carried out at arm's length. Transactions with related parties include the French State, DaimlerChrysler, Lagardère, and SEPI (Spanish State). Except for the transactions with the French State the transactions are not considered material to the Group either individually or in the aggregate. The transactions with the French State include mainly sales from the Eurocopter, Defence & Security Systems, and Space divisions.

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

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

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

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

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

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

Executive Committee members are also entitled to a company car.

33. Investment property

The Group owns investment property, that is leased to third parties. For the purposes of IAS 40 “Investment property” the fair values have been determined by using market based multipliers for estimated rental income or using available market prices.

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

(in €m)	Historical cost	Accumulated depreciation 31st December 2004	Book value 31st December, 2004	Transfer Historical cost	Depreciation Amortisation	Transfer Accumulated depreciation	Accumulated depreciation 31st December, 2005	Net at 31st December, 2005
Book value of Investment Property	251	(92)	159	2	(18)	(9)	(119)	134

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

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

34. Interest in Joint Ventures

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

The following amounts represent the Group’s aggregate share of the assets and liabilities and income and expenses of the significant joint ventures (MBDA and ATR):

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

35. Earnings per Share

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

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

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

Diluted earnings per share - For the calculation of the diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all potential ordinary shares. The Group's only category of dilutive potential ordinary shares is stock options. In 2005, the average share price of EADS exceeded the exercise price of the stock options under the 1st, 2nd, 3rd, 4th, 5th, and 6th stock option plan (in 2004: 4th and 5th stock option plan). Hence, 5,482,133 shares (2004: 3,047,837 shares) were considered in the calculation of diluted earnings per share. In 2003, there was no dilution impact of shares under all existing stock option plans. As a consequence, the weighted average number of shares outstanding was the same for both basic and diluted earnings per share.

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

36. Number of Employees

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

37. Events after the balance sheet date

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

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

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

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

Appendix: Information on principal investments Consolidation Scope

2005	%	2004	%	Company	Head office
Airbus					
F	80.00	F	80.00	128829 Canada Inc.	Canada
F	80.00	F	80.00	A 320 Financing limited	Ireland
		F	80.00	AA Credit Aircraft Leasing Limited	Isle Of Man
F	80.00	F	80.00	AFS (Cayman) Ltd	Ireland
F	80.00	F	80.00	AFS Cayman 11 Limited	Cayman Isle
F	80.00	F	80.00	AFS Cayman Aerospace Limited	Ireland
F	80.00	F	80.00	AFS USA 1 inc	USA
F	80.00	F	80.00	AI leasing Inc.	USA
F	80.00	F	80.00	AI Participations S.A.R.L.	Blagnac (France)
F	80.00	F	80.00	AIFI LLC	Isle Of Man
F	80.00	F	80.00	AIFS (Cayman) ltd.	Cayman Isle
F	80.00	F	80.00	AIFS Cayman Liquidity ltd.	Cayman Isle
F	80.00	F	80.00	AIFS Leasing Company Limited	Ireland
F	80.00	F	80.00	AINA Inc.	USA
F	80.00	F	80.00	Airbus China limited	Hong-Kong
F	80.00	F	80.00	Airbus Deutschland GmbH	Hamburg (Germany)
F	80.00	F	80.00	Airbus Espana SL	Madrid (Spain)
F	80.00	F	80.00	Airbus Finance Company Ltd	Dublin (Ireland)
F	80.00	F	80.00	Airbus Financial Service Holdings B.V.	Netherlands
F	80.00	F	80.00	Airbus Financial Service Holdings ltd.	Ireland
F	80.00	F	80.00	Airbus Financial Service ltd.	Ireland
F	80.00	F	80.00	Airbus France S.A.S	Toulouse (France)
F	80.00	F	80.00	Airbus Holding SA	France
F	80.00	F	80.00	Airbus Invest	Toulouse (France)
F	80.00	F	80.00	Airbus North America engineering (former Wichita)	USA
F	80.00	F	80.00	Airbus North American Holdings Inc. (AINA)	USA
F	80.00	F	80.00	Airbus S.A.S	Toulouse (France)
F	80.00	F	80.00	Airbus Service Company Inc. (ASCO)	USA
F	80.00	F	80.00	Airbus Transport International S.N.C. (ATI)	Blagnac (France)
F	80.00			Airbus Treasury Company	Ireland
F	80.00	F	80.00	Airbus UK Limited	UK
		F	80.00	Aircabin GmbH	Laupheim (Germany)
E	16.00	E	16.00	Alexandra Bail G.I.E	France
F	80.00	F	80.00	Avaio Aerospace Limited	Ireland
F	80.00	F	80.00	Avaio Aviation Limited	Ireland
F	80.00	F	80.00	Avaio International Limited	Ireland

F: Fully consolidated P: Proportionate E: Equity method
The stated percentage of ownership is related to the respective parent company.

2005	%	2004	%	Company	Head office
F	80.00	F	80.00	Avaio Leasing Limited	Ireland
F	80.00	F	80.00	Avaio Limited	Isle Of Man
F	80.00	F	80.00	Aviateur Aerospace Limited	Ireland
F	80.00	F	80.00	Aviateur Eastern Limited	Ireland
F	80.00	F	80.00	Aviateur Finance Limited	Ireland
F	80.00	F	80.00	Aviateur International Limited	Ireland
F	80.00	F	80.00	Aviateur Leasing Limited	Ireland
F	80.00	F	80.00	Aviateur Limited	Ireland
E	26.40	E	26.40	Avion Capital Limited	Ireland
F	80.00	F	80.00	Avion Finance Limited	Ireland
F	80.00			AVSA Canada Inc.	Canada
F	80.00	F	80.00	AVSA SARL	Blagnac (France)
		F	80.00	KID-Systeme GmbH	Buxtehude (Germany)
F	80.00	F	80.00	Norbus	USA
F	80.00	F	80.00	Star Real Estate SAS	Boulogne (France)
F	80.00	F	80.00	Total Airline Service Company	United Arab Emirates
Additionally consolidated are 46 SPEs.					
Military Transport Aircraft					
F	76.12	F	76.12	Airbus Military S.L.	Madrid (Spain)
F	100.00	F	100.00	EADS CASA North America Inc	Chantilly/Virginia (USA)
F	100.00	F	100.00	EADS CASA S.A. (Unit: EADS CASA Military Transport Aircraft)	Madrid (Spain)
F	76.41	F	75.00	EADS PZL “WARSZAWA-OKECIE” S.A.	Warsaw (Poland)
Eurocopter					
F	100.00	F	100.00	American Eurocopter Corp.	Dallas, Texas (USA)
F	60.00	F	60.00	American Eurocopter LLC	Dallas, Texas (USA)
F	75.00	F	75.00	Eurocopter South East Asia Pte. Ltd.	Singapore (Singapore)
F	100.00	F	100.00	Eurocopter Canada Ltd.	Ontario (Canada)
F	100.00	F	100.00	Eurocopter Deutschland GmbH	Donauwörth (Germany)
F	100.00	F	100.00	Eurocopter España S.A.	Madrid (Spain)
F	100.00	F	100.00	Eurocopter Holding S.A.	Paris (France)
F	100.00	F	100.00	Eurocopter S.A.S.	Marignane (France)
F	76.52	F	76.52	Helibras - Helicopteros do Brasil S.A.	Itajuba (Brazil)
F	100.00			Australian Aerospace Ltd.	Bankstown (Australia)
F	100.00			EIP Holding Pty. Ltd.	Bankstown (Australia)
F	100.00			AA New Zealand Pty. Ltd.	Bankstown (Australia)
F	100.00			AA military maintenance Pty. Ltd.	Brisbane (Australia)
Defence & Security Systems					
F	100.00	F	100.00	Aircraft Services Lemwerder GmbH	Lemwerder (Germany)
P	37.50	P	37.50	ALKAN	Valenton (France)

F: Fully consolidated P: Proportionate E: Equity method
The stated percentage of ownership is related to the respective parent company.

2005	%	2004	%	Company	Head office
F	100.00	F	100.00	Apsys	France
F	55.00	F	55.00	Aviation Defense Service S.A.	Saint-Gilles (France)
P	50.00	P	50.00	Bayern-Chemie Gesellschaft für flugchemische Antriebe mbH	Aschau/Inn (Germany)
F	100.00	F	100.00	Defense Security Systems Solutions Inc. (in 2004: ARC)	San Antonio, Texas (USA)
F	100.00			Dornier Consulting GmbH	Friedrichshafen (Germany)
F	100.00	F	100.00	Dornier Flugzeugwerft GmbH	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS CASA S.A. (Unit: Military Aircraft)	Madrid (Spain)
F	100.00	F	100.00	EADS CASA S.A. (Unit: Operations Service)	Madrid (Spain)
F	100.00	F	100.00	EADS Defence & Security Systems Limited - Holding (in 2004: EADS Telecom UK Ltd.)	Newport, Wales (UK)
F	100.00	F	100.00	EADS Defence & Security Systems Limited (in 2004: Cogent Defence & Security Networks)	Newport, Wales (UK)
F	100.00	F	100.00	EADS Defence & Security Systems SA	Velizy (France)
F	100.00	F	100.00	EADS Deutschland GmbH - Dornier Services	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH - Dornier Verteidigung und Zivile Systeme	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH - Military Aircraft TB 51	Munich (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH – VA (Restaktivitäten)	Unterschleißheim (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH – Verteidigung und Zivile Systeme	Ulm (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH (Unit: Operations Services)	Unterschleißheim (Germany)
F	100.00			EADS North America Defense Company	Wilmington, Delaware (USA)
F	100.00	F	100.00	EADS Operations & Services UK	Yeovil, Somerset (UK)
F	100.00	F	100.00	EADS Secure Networks SAS (in 2004: EADS Telecom SAS)	Bois d'Arcy (France)
F	100.00			EADS Secure Networks Oy	Helsinki (Finland)
F	100.00	F	100.00	EADS Services	Boulogne (France)
F	100.00	F	100.00	EADS System & Defence Electronics Belgium	Oostkamp (Belgium)
		F	100.00	EADS Telecom Benelux	Bruxelles (Belgium)
		F	100.00	EADS Telecom Danmark	Copenhague (Denmark)
F	100.00	F	100.00	EADS Telecom Deutschland GmbH	Ulm (Germany)
F	100.00	F	100.00	EADS Telecom Deutschland GmbH	Unterschleißheim (Germany)
F	100.00	F	100.00	EADS Telecom Espana	Madrid (Spain)
		F	100.00	EADS Telecom Federal Systems Division	San Antonio, Texas (USA)
		F	100.00	EADS Telecom Inc	Dallas, Texas (USA)
F	100.00	F	100.00	EADS Telecom Mexico SA de CV	Mexico DF (Mexico)
		F	98.95	EADS Telecom North America Inc	Dallas, Texas (USA)
		F	100.00	EADS Telecom Spa	Milan (Italy)
E	30.00			ESG Elektroniksystem- und Logistikgesellschaft	Munich (Germany)
F	100.00	F	100.00	EUROBRIDGE Mobile Brücken GmbH	Friedrichshafen (Germany)

F: Fully consolidated P: Proportionate E: Equity method
The stated percentage of ownership is related to the respective parent company.

2005	%	2004	%	Company	Head office
F	100.00	F	100.00	Ewation GmbH	Ulm (Germany)
F	100.00	F	100.00	Fairchild Controls Corporation	Frederick, Maryland (USA)
F	100.00	F	100.00	FmElo Elektronik- und Luftfahrtgeräte GmbH	Ulm (Germany)
		P	50.00	Forges de Zeebrugge S.A.	Herstal-Liege (Belgium)
F	100.00	F	100.00	Germantown Holding Company	Frederick, Maryland (USA)
F	100.00	F	100.00	Gesellschaft für Flugzieldarstellung mbH	Hohn (Germany)
F	100.00	F	100.00	Hagenuk Marinekommunikation GmbH	Flintbek (Germany)
		F	98.95	Intecom Holding ULC	Dallas, Texas (USA)
F	100.00			Integrated Defense Systems NA	Wilmington, Delaware (USA)
F	81.25	F	81.25	LFK – Lenkflugkörpersysteme GmbH	Unterschleißheim (Germany)
		F	100.00	LFK Objekt Nabern GmbH & Co.KG	Unterschleißheim (Germany)
		F	100.00	M.C.N. SAT HOLDING	Velizy (France)
F	100.00	F	100.00	M.P. 13	Paris (France)
P	50.00	P	50.00	Maîtrise d'Oeuvre SyStème	Issy les Moulineaux (France)
F	100.00	F	100.00	Manhattan Beach Holdings Co.	Frederick, Maryland (USA)
P	37.50	P	37.50	Marconi Overside Ldt.	Chelmsford (UK)
F	100.00	F	100.00	Matra Aerospace Inc.	Frederick, Maryland (USA)
F	100.00	F	100.00	Matra Défense	Velizy (France)
P	37.50	P	37.50	Matra Electronique	La Croix Saint-Ouen (France)
F	100.00	F	100.00	Matra Holding GmbH	Frankfurt (Germany)
P	37.50	P	37.50	MBDA France	Velizy (France)
P	37.50	P	37.50	MBDA Holding	Velizy (France)
P	37.50	P	37.50	MBDA Inc	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	80.00	F	80.00	Pentastar Holding	Paris (France)
F	100.00	F	100.00	Proj2	Paris (France)
P	50.00	P	50.00	Propulsion Tactique S.A.	La Ferté Saint Aubin (France)
		F	98.95	Pyderion Contact Technologies Inc.	Dallas, Texas (USA)
F	100.00	F	100.00	Racal Instruments US	San Antonio, Texas (USA)
F	100.00	F	100.00	Racal Instruments UK	Wimborne, Dorset (UK)
E	33.00	E	33.00	Reutech Radar Systems (Pty) Ltd.	Stellenbosch (South Africa)
E	18.75	E	18.75	Roxel	Saint-Médard-en-Jalles (France)
F	100.00	F	100.00	Sycomore S.A.	Boulogne-Billancourt (France)
F	100.00			Talon Instruments	San Dimas, CA (USA)
F	67.00	F	67.00	TAURUS Systems GmbH	Schrobenhausen (Germany)

F: Fully consolidated P: Proportionate E: Equity method
The stated percentage of ownership is related to the respective parent company.

2005	%	2004	%	Company	Head office
		P	50.00	TDA – Armements S.A.S.	La Ferté Saint Aubin (France)
F	98.00	F	98.00	TDW- Ges. für verteidigungstechnische Wirksysteme GmbH	Schrobenhausen (Germany)
E	25.00	E	25.00	Telefunken Radio Communication Systems GmbH & Co. KG	Ulm (Germany)
F	100.00	F	100.00	Test & Services France (in 2004: International Test & Services)	Velizy (France)
F	99.99	F	99.99	Test & Services North America	Wilmington, Delaware (USA)
F	100.00	F	100.00	TYX Corp.	Reston, VA (USA)
E	50.00	E	50.00	United Monolithic Semiconductors France SAS	Orsay (France)
E	50.00	E	50.00	United Monolithic Semiconductors Holding	Orsay (France)
E	50.00	E	50.00	United Monolithics Semiconductor GmbH	Ulm (Germany)
F	90.00	F	90.00	UTE CASA A.I.S.A.	Madrid (Spain)
Space					
F	100.00	F	100.00	Computadoras, Redes e Ingenieria SA (CRISA)	Madrid (Spain)
F	100.00	F	100.00	EADS Astrium GmbH	Munich (Germany)
F	100.00	F	100.00	EADS Astrium Jersey Ltd.	Jersey (UK)
F	100.00	F	100.00	EADS Astrium Ltd.	Stevenage (UK)
F	100.00	F	100.00	EADS Astrium N.V.	The Hague (Netherlands)
F	100.00	F	100.00	EADS Astrium SAS	Toulouse (France)
F	100.00	F	100.00	EADS CASA Espacio S.L.	Madrid (Spain)
F	100.00	F	100.00	EADS Deutschland GmbH – Space Services	Munich (Germany)
		F	68.40	EADS Dornier Raumfahrt Holding GmbH	Munich (Germany)
F	100.00	F	100.00	EADS Space B.V.	Amsterdam (Netherlands)
F	100.00	F	100.00	EADS Space Management & Services SAS	Paris (France)
F	100.00	F	100.00	EADS Space Transportation (Holding) SAS	Paris (France)
F	100.00	F	100.00	EADS Space Transportation GmbH	Munich (Germany)
F	100.00	F	100.00	EADS Space Transportation N.V.	Amsterdam (Netherlands)
F	100.00	F	100.00	EADS Space Transportation SAS	Les Muraux (France)
		F	100.00	Global DASA LLC	New York (USA)
F	100.00	F	100.00	Infoterra GmbH	Friedrichshafen (Germany)
F	100.00	F	100.00	Infoterra Ltd.	Southwood (UK)
F	100.00	F	100.00	Matra Marconi Space UK Ltd.	Stevenage (UK)
F	100.00	F	100.00	MMS Systems Ltd	Stevenage (UK)
E	47.40	E	47.40	Nahuelsat S.A.	Buenos Aires (Argentina)
F	100.00	F	100.00	Paradigm Secure Communications (Holding) Ltd.	Stevenage (UK)
F	100.00	F	100.00	Paradigm Secure Communications Ltd.	Stevenage (UK)
F	100.00	F	100.00	Paradigm Services Ltd.	Stevenage (UK)
F	100.00	F	100.00	TESAT-Spacecom Geschäftsführung GmbH	Backnang (Germany)
F	100.00	F	100.00	TESAT-Spacecom GmbH & Co. KG	Backnang (Germany)

F: Fully consolidated P: Proportionate E: Equity method
The stated percentage of ownership is related to the respective parent company.

2005	%	2004	%	Company	Head office
Other Businesses					
F	80.00	F	80.00	Aerobail GIE	Paris (France)
P	50.00	P	50.00	ATR Eastern Support	Singapore (Singapore)
P	50.00	P	50.00	ATR GIE	Toulouse (France)
P	50.00	P	50.00	ATR International SARL	Toulouse (France)
P	50.00	P	50.00	ATR North America Inc.	Washington D.C. (USA)
P	50.00	P	50.00	ATR Training Center SARL	Toulouse (France)
P	50.00	P	50.00	ATRiam Capital Ltd.	Dublin (Irland)
F	50.10	F	50.10	Composites Aquitaine S.A.	Salaunes (France)
F	50.00	F	50.00	Composites Atlantic Ltd.	Halifax (Canada)
F	88.00	F	88.00	EADS Aeroframe services LLC	Lake Charles, Louisiana (USA)
F	100.00	F	100.00	EADS ATR S.A.	Toulouse (France)
		F	100.00	EADS EFW Beteiligungs- und Verwaltungsgesellschaft GmbH	Munich (Germany)
E	49.99	E	49.99	EADS Revima APU S.A.	Caudebec en Caux (France)
F	100.00	F	100.00	EADS Revima S.A.	Tremblay en France (France)
F	100.00	F	100.00	EADS Seca S.A.	Le Bourget (France)
F	100.00	F	100.00	EADS Socata S.A.	Le Bourget (France)
F	100.00	F	100.00	EADS Sogerma S.A.	Mérignac (France)
F	50.10	F	50.10	EADS Sogerma Tunisie	Monastir (Tunisia)
F	100.00	F	100.00	Elbe Flugzeugwerke GmbH	Dresden (Germany)
F	100.00	F	100.00	Maroc Aviation S.A.	Casablanca (Morocco)
F	100.00	F	100.00	Noise Reduction Engineering B.C.	Washington D.C. (USA)
F	100.00	F	100.00	Socata Aircraft Inc.	Miami, Florida (USA)
F	100.00	F	100.00	Sogerma America Barfield B.C.	Miami, Florida (USA)
F	100.00	F	100.00	Sogerma Drawings S.A.	Mérignac (France)
Additionally consolidated are 23 SPCs.					
Headquarters					
F	100.00	F	100.00	Airbus Financial Company Holding B.V.	Dublin (Ireland)
F	75.00	F	75.00	DADC Luft- und Raumfahrt Beteiligungs AG	Munich (Germany)
E	46.30	E	46.22	Dassault Aero Service	(France)
E	46.30	E	46.22	Dassault Assurances Courtage	(France)
E	46.30	E	46.22	Dassault Aviation	Paris (France)
E	46.30	E	46.22	Dassault Falcon Jet	Teterboro N.J. (USA)
E	46.30	E	46.22	Dassault Falcon Service	Bonneuil en France
E	46.30	E	46.22	Dassault International (USA) Inc.	Paramus N.J. (USA)
E	46.30	E	46.22	Dassault Procurement Services Inc.	Paramus N.J. (USA)
E	46.30	E	46.22	Dassault-Reassurance	(France)
E	46.30	E	46.22	Dassault Sagem Tactical U A V	(France)
F	97.11	F	93.58	Dornier Zentrale	Friedrichshafen (Germany)

F: Fully consolidated P: Proportionate E: Equity method
The stated percentage of ownership is related to the respective parent company.

2005	%	2004	%	Company	Head office
F	100.00	F	100.00	EADS CASA France	Paris (France)
F	100.00	F	100.00	EADS CASA S.A. (Headquarters)	Madrid (Spain)
F	100.00	F	100.00	EADS Deutschland GmbH – Zentrale	Munich (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH FO – Forschung	Munich (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH LO – Liegenschaften OTN	Munich (Germany)
F	100.00	F	100.00	EADS Finance B.V.	Amsterdam (Netherlands)
F	100.00	F	100.00	EADS France	Paris (France)
F	100.00	F	100.00	EADS North America Inc.	Washington (USA)
		F	100.00	EADS Raumfahrt Beteiligungs GmbH	Ottobrunn (Germany)
F	100.00			EADS Dornier Raumfahrt Holding GmbH	Ottobrunn (Germany)
F	97.11	F	93.58	EADS Real Estate Dornier Grundstücke GmbH & Co. KG	Taufkirchen (Germany)
F	100.00			EADS Real Estate Objekt Nabern GmbH & Co. KG (in 2004: LFK Objekt Nabern GmbH & Co. KG)	Taufkirchen (Germany)
E	46.30	E	46.22	Sogitec Industries	Suresnes (France)

F: Fully consolidated P: Proportionate E: Equity method
The stated percentage of ownership is related to the respective parent company.

Auditors’ Report on the Consolidated Financial Statements (IFRS)

Introduction

We have audited the accompanying consolidated financial statements which are part of the financial statements of European Aeronautic Defence and Space Company EADS N.V., Amsterdam, for the year 2005. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Scope

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

Opinion

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

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

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

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

Company Financial Statements

1. Balance Sheet of the Company Financial Statements

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

2. Income Statement of the Company Financial Statements

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

Notes to the Company Financial Statements

1.1 General

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

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

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

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

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company financial statements, EADS N.V. makes use of the option provided in section 2:362 (8) of the Netherlands Civil Code. As from 2005, the Netherlands Civil Code allows that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the company financial statements of EADS N.V. are the same as those applied for the consolidated EU-IFRS financial statements. These consolidated EU-IFRS financial statements are prepared according to the standards laid down by the International Accounting Standards Board and adopted by the European Union (hereinafter referred to as EU-IFRS).

Please see note 2 of the consolidated financial statements for a description of these principles. Participating interests, over which significant influence is exercised, are stated on the basis of the equity method.

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

1.3 Changes in accounting policies

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

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

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

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

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

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

31st December 2003					
	Principles for recognition and measurement of	Effect of changes to principles of recognition and measurement to IFRS			Principles for recognition and measurement
(in €m)	part 9, BW 2	IFRS 3	IAS 16	IAS 32	of IFRS
Financial Assets	9,647		(30)	2,530	12,147
Liability for puttable instruments				3,500	3,500
Stockholders' Equity	16,149		(30)	(970)	15,149

31st December 2004					
	Principles for recognition and measurement of	Effect of changes to principles of recognition and measurement to IFRS			Principles for recognition and measurement
(in €m)	part 9, BW 2	IFRS 3	IAS 16	IAS 32	of IFRS
Goodwill	4,091	263			4,354
Financial Assets	10,927	280	(30)	2,767	13,944
Liability for puttable instruments				3,500	3,500
Stockholders' Equity	16,430	543	(30)	(733)	16,210

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Fixed assets

The movements in fixed assets are detailed as follows:

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

The fair value adjustments on financial instruments/others reflect mainly the impact in the other comprehensive income in the participating interests related to the application of IAS 39.

The loans are provided to affiliated companies.

3. Receivables and other assets

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

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

All receivables and other assets mature within one year.

4. Securities, Cash and cash equivalents

The securities comprise mainly available-for-Sale Securities.

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

5. Stockholders' equity

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

For further information to the Stockholders' equity, please see note 20 of the consolidated financial statements.

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

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

The legal reserves as required by Dutch law are related to EADS' share in the undistributed results from investments for €580 million (2004: €385 million) and the internally generated capitalized development costs of €462 million (2004: €169 million).

6. Liability for puttable instruments

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

7. Other liabilities

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

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

8. Commitments and contingent liabilities

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

9. Remuneration

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

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

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

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

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

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

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

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

In 2005 no stock-options were granted to the former directors Mr. Philippe Camus and Mr. Rainer Hertrich. However, under the terms of their employment contracts a termination package was allocated to them (€2,550 million each, i.e. 18 months of total target income).

As detailed above, the number of outstanding stock options granted to the Executive Board Directors was 1,425 million as at 31st December 2005. To the other members of the Executive Committee, to the Group's senior management and to former members of the Board of Directors, the number of the outstanding stock options amounted to 32,941 million at the same date. For further information, please see note 31 of the consolidated IFRS financial statements.

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

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

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

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

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

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

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

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

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

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

Supplementary Information

1. Auditors' Report

Introduction

We have audited the accompanying company financial statements which are part of the financial statements of European Aeronautic Defence and Space Company EADS N.V., Amsterdam, for the year 2005. These company financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these company financial statements based on our audit.

Scope

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

Opinion

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

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

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

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

2. Other Supplementary Information

1. Appropriation of result

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

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

2. Subsequent events

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

Shareholders Information

How to get to the Hotel Okura ?

Hotel Okura Amsterdam is located right next to the RAI Congress Centre, only 30 minutes from Amsterdam-Schiphol international airport.

By car:

From all directions, follow Ring Amsterdam (A10). Exit RAI (S109) and turn right at the traffic lights, direction RAI/Centrum (S109).

Follow direction Zuid (S109). After passing the roundabout, take the second street on your right (Scheldestraat).

After 500 meters, Hotel Okura Amsterdam appears on your right hand side.

By public transport:

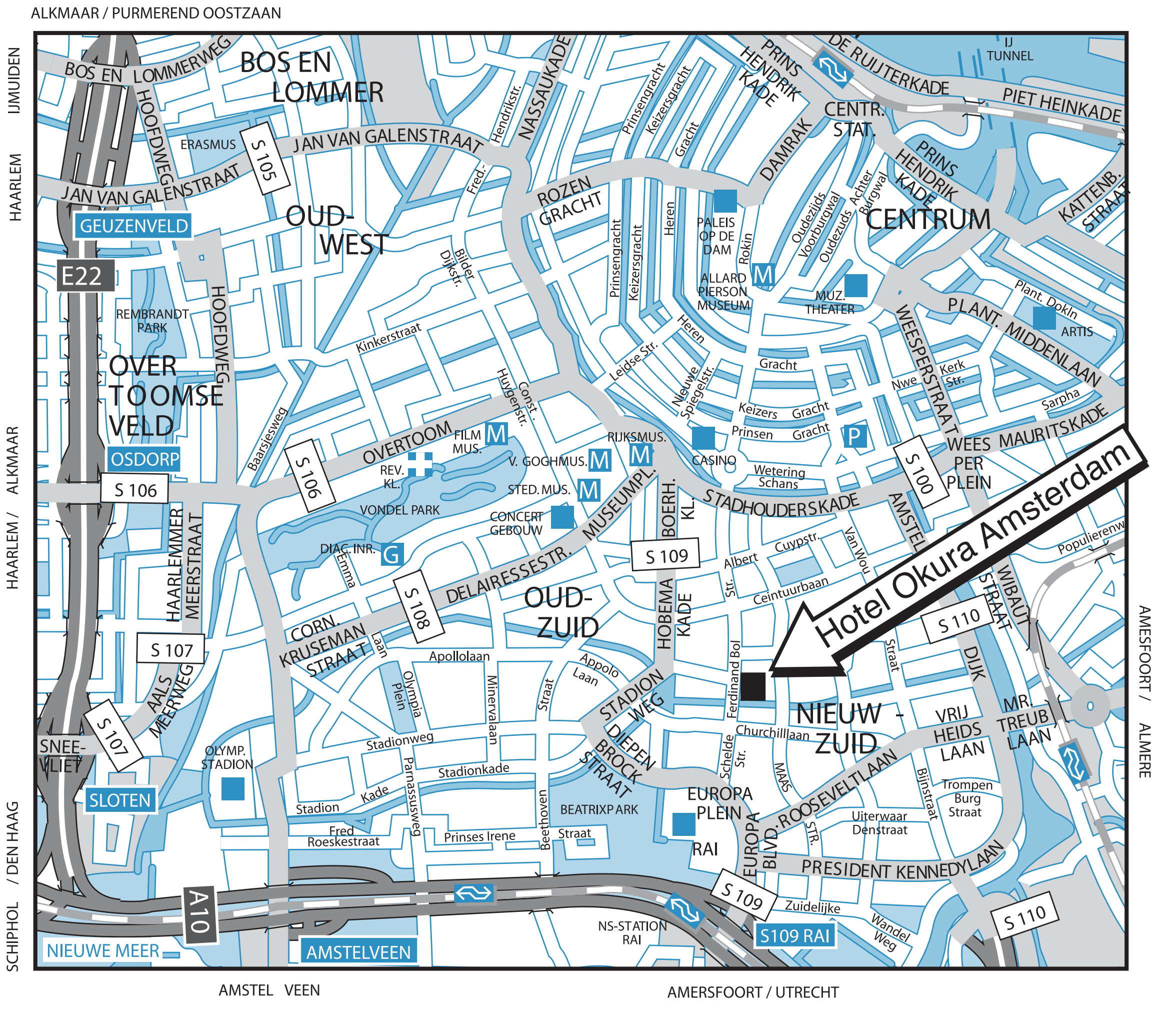
From Central Station: tram 25, stopping-place Cornelis Troostplein.

Travelling time: ±15 minutes.

From Amstel Station: tram 12, bus 15, stopping-place Scheldestraat.

Travelling time: ±10 minutes.

From RAI station: a 10-minutes walk to the Hotel Okura Amsterdam.



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European Aeronautic Defence
and Space Company EADS N.V.

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Registered at the Chamber of Commerce
in Amsterdam under number 24288945

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