

EADS
Annual Review
2005

Leading Edge



The step beyond

Welcome

EADS is a global leader in aerospace,
defence and related services.

May this 'EADS at a glance 2005'
supplement serve you as a log book
of a journey around the world of EADS.



EADS at a glance 2005

EADS Group
Financial highlights 2005
Key indicators 2005
Owning EADS shares
EADS around the world

Airbus

Airbus is a leading commercial aircraft manufacturer. Its customer focus, commercial know-how, technological leadership and manufacturing efficiency consistently win it half of all orders for planes of 100 seats or more.

Military Transport Aircraft

Military Transport Aircraft designs, manufactures and sells some of the world's most advanced transport aircraft. Products include heavy, medium and light transports, as well as Airbus military derivatives, which leverage all the efficiencies of Airbus commercial planes.

Eurocopter

Eurocopter is the world's leading helicopter manufacturer. It captures more than 50% of sales for civil and parapublic helicopters, and has a strong and growing military business.

Defence & Security Systems

Defence & Security Systems is the main pole for EADS' military and global security activities. It has a wide range of platforms, including EADS' role in Eurofighter, missile systems, defence communication systems, defence electronics and services.

Space

EADS Space is Europe's pre-eminent space group and the third-largest worldwide. It is the lead European supplier of satellites, launchers and space services. It is playing a key role in Europe's institutional space programmes.

EADS sets the standard for innovation in many areas of commercial aviation, defence, global security and space.

A320



- Best year ever in terms of deliveries, orders and profitability
- First flight of A380, the world's largest and most economical aircraft
- Launch of A350, a technologically advanced plane for fuel-efficient long-range travel

A330 MRTT



- Increase in EBIT, reflecting successful operations and restructuring of previous year
- Eight orders for A400M transporters from South Africa in 2005 on top of the initial 180 orders from home countries. Four orders from Malaysia in 2006; Declaration of Intent from Chile for three aircraft
- EADS-led Air Tanker - designated preferred bidder for UK tanker programme

AS350 flying to Everest



- Consolidation of global leadership in the civil and parapublic sector
- Spain confirmed as third home market
- Belgium, New Zealand and Spain as new customers for the NH90
- Important co-operation agreements reached in high-growth Asia and North America

Eurofighter



- Strong year for deliveries and new orders
- Substantial contracts for missiles, Eurofighter self-protection and border surveillance
- Capabilities added in growth sectors through acquisition

Galileo satellite



- Profitability substantially increased due to growth and lower cost base
- Successful qualification of Ariane 5 ECA (ten tons)
- Progress on the ballistic missiles qualification
- Major orders for EADS Astrium satellites from South Korea and European Space Agency
- Defence satellite communications systems advance with progress on Paradigm in the UK and selection as preferred bidder for Germany

Financial highlights 2005

EADS Group

		2005	2004	2003
Revenue	€m	34,206	31,761	30,133
EBIT ¹ (Earnings before interest and taxes)	€m	2,852	2,432 ²	1,543
Net income	€m	1,676	1,203 ^{2,3}	206
Earnings per share	€	2.11	1.50 ³	0.26
Dividend per share	€	0.65 ⁴	0.50	0.40
Net cash position	€m	5,489	3,961	3,008
Order intake ⁵	€m	92,551	44,117	61,150
Order book ⁵	€m	253,235	184,288	179,280
Workforce (number of employees)		113,210	110,662	109,135

¹ Unless otherwise indicated, EBIT figures presented in this report are pre-goodwill impairment and exceptionals

² 2004 restated by stock options expense (€ -12 million for EADS Group) according to first time application of IFRS 2

³ EADS continues to use the term net income. It is identical with profit for the period attributable to equity holders of the parent as defined by IFRS rules; revised application of IAS 32 standards required changes regarding the accounting for the put option granted to BAE Systems as a minority shareholder of Airbus. These changes contributed €289 million to net income (FY 2004: €185 million) or €0.36 to earnings per share (FY 2004: €0.23)

⁴ To be proposed at AGM on 4th May 2006

⁵ Contributions from commercial aircraft activities to EADS order intake and order book based on list prices

EADS Segments

		2005	2004	2003
Airbus				
Revenue	€m	22,179	20,224	19,048
Order book	€m	201,963	136,022	141,836
Military Transport Aircraft				
Revenue	€m	763	1,304	934
Order book	€m	20,961	19,897	20,007
Eurocopter				
Revenue	€m	3,211	2,786	2,611
Order book	€m	9,960	9,117	8,702
Defence & Security Systems				
Revenue	€m	5,636	5,385	5,165
Order book	€m	18,509	17,276	14,283
Space				
Revenue	€m	2,698	2,592	2,424
Order book	€m	10,931	11,311	7,888
Other Businesses⁶				
Revenue	€m	1,155	1,123	1,192
Order book	€m	2,128	1,079	1,115

⁶ ATR, EADS EFW, EADS Socata and EADS Sogerma Services are allocated to Other Businesses which is not a stand-alone EADS Division

EADS has consistently delivered higher EBIT and earnings per share.

Revenue (€m)



+8%

Revenue grew by 8% to €34.2 billion. Increases were achieved in most of our Divisions and were particularly strong in Airbus and Eurocopter.

EBIT (€m)



+17%

In 2005, EADS clearly outperformed its previous record year. The outstanding result is mainly due to the continued strong revenue and earnings of Airbus as well as the Group's Space and Defence businesses.

Net income (€m)



+39%

Net income, €1,676 million was up 39% from €1,203 million in 2004. The 2004 figure (reported at €1,030 million) was restated for comparison following implementation of IFRS 2 and revised IAS 32.

Earnings per share (€)



+41%

Earnings per share 2005 grew to €2.11 from €1.50 in 2004 reflecting the sharp increase of net income linked to strong operational performance and an increased financial result.

Net cash position (€m)



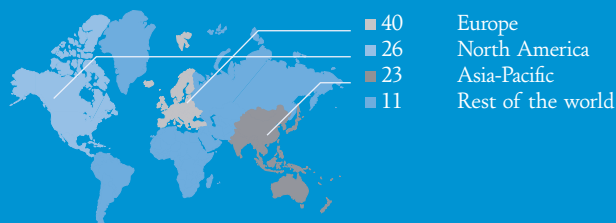
+39%

EADS' net cash position remained strongly positive at €5.5 billion, expanding by 39%, providing robustness and flexibility.

Percentages used with the charts throughout this report refer to variation between 2004 and 2005

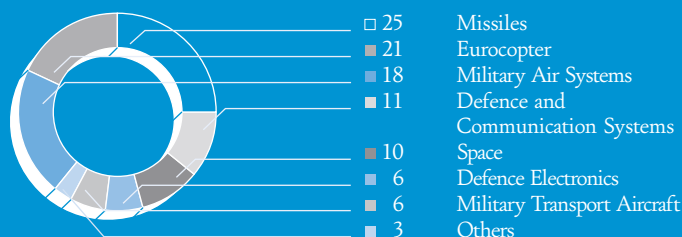
Key indicators 2005

Revenue breakdown by geography in 2005 (%)



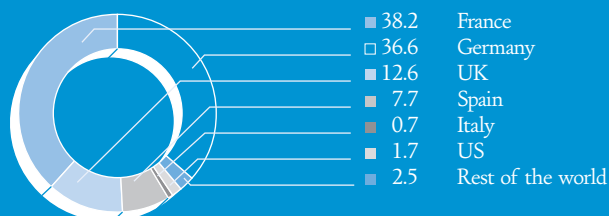
Europe accounts for the greatest percentage of revenue, with North America generating the second-highest percentage, closely followed by Asia-Pacific.

Revenue in defence activities in 2005 (%)



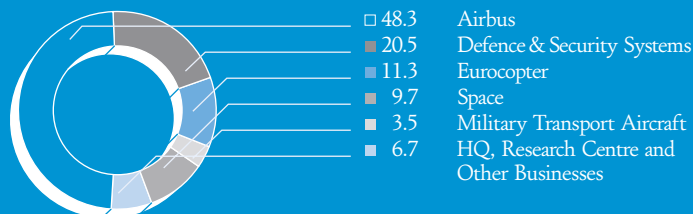
Revenue from the defence businesses amounted to €7.7 billion. The largest contributors were helicopters, missiles (MBDA), military aircraft, secure communication (DCS) and space.

Employees by country at year end 2005 (%)



In total, 95% of EADS' total workforce is located in EADS' European home markets on more than 80 industrial sites.

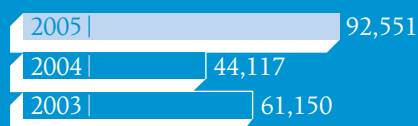
Employees by business sector at year end 2005 (%)



There was a small increase in employees during 2005, mainly as a result of expansion at Airbus and Eurocopter. The total number of employees was 113,210 at year end 2005.

A record order book underwrites future growth.

Order intake (€m)



In 2005, EADS enjoyed a record order intake of €92.5 billion (+110% over 2004), including €10.3 billion from defence businesses.

Order book (€m)



The EADS order book increased by 37% thanks to the growth of Airbus backlog and continuous growth in defence businesses. It would have increased by 32% at constant US Dollar/Euro exchange rate.

Defence order book (€m)



The defence order book increased 7% in 2005 thanks to strong order intake in Military Transport Aircraft, Eurocopter and Defence & Security Systems.

Self-financed R&D (€m)



R&D expenditure in 2005 reflected EADS' continued high level of investment in innovation. It was equivalent to 6.1% of EADS' revenue.

Owning EADS shares

The institutional investor ownership of EADS shares progressed during 2005, with European institutions lifting their investments. Continental 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 CAC 40 and the aerospace and defence sectors of the market gained 23% and 21% respectively over the period. In a context of rising share prices, trading volume remained high, averaging around two 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 meagre 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 opened 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 US 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 22nd 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.

Dividend per share (€)
(gross amount)



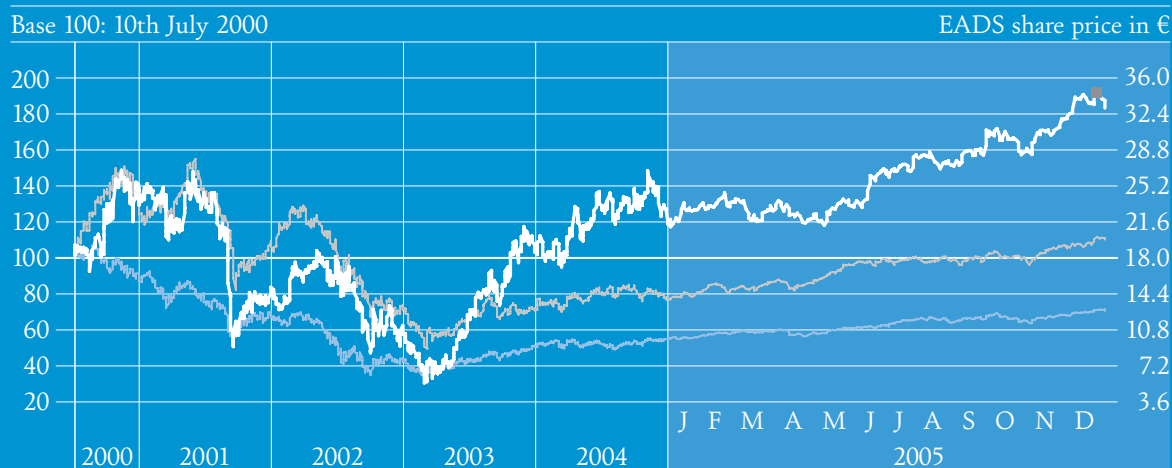
+30%

For the third consecutive year, an increase of dividend is proposed based on EADS' robust earnings growth. In 2005, EADS' Board adapted its dividend policy taking into account dividend continuity as a desirable shareholder policy objective over the following years.

¹ To be proposed at AGM on 4th May 2006

EADS' share price reached all-time highs in 2005.

Share price evolution as of 31st December 2005



— EADS
 — CAC 40
 — MSCI World Aero/Defence (in €, adjusted daily US\$/€ rate)

■ Highest share price 2005:
 €33.45 on 22nd December

ISIN code: NL0000235190

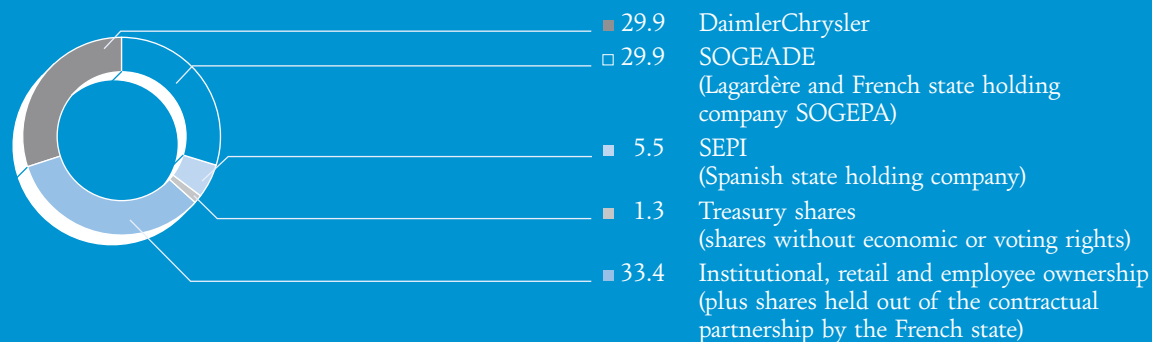
Number of issued shares as of 31st December 2005: 817,743,130

Offer price on 10th July 2000: €19 for institutional investors, €18 for retail investors

Highest share price 2005 on Paris Stock Market: €33.45 on 22nd December 2005

Lowest share price 2005 on Paris Stock Market: €20.76 on 5th January 2005

Shareholder structure as of 31st December 2005 (as %)



In April 2006, DaimlerChrysler and Lagardère SCA announced they entered into simultaneous transactions aimed at reducing their respective stakes in EADS by 7.5% each. This adds to EADS' stock liquidity. At the same time, DaimlerChrysler and Lagardère SCA confirmed their continued commitment to remain core shareholders of EADS. Under the shareholder agreements, the balance of control between the core shareholders in EADS' corporate governance remains unchanged.

EADS around the world



This map contains a selection of EADS' recent activities and business successes around the world

EADS is expanding into the world's aerospace and defence growth markets.





Front cover:
A380 cockpit

Back cover:
Ecureuil AS350
with A380

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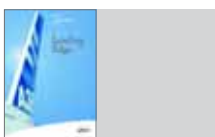
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The complete EADS Annual Report Suite 2005 consists of:



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2005 (1)



Financial Statements
and Corporate
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Business, Legal
and Corporate
Responsibility
2005 (3)
(available on request)



The online version
of the Annual Report
Suite is available at
www.reports.eads.com

Dear EADS shareholders,

We are happy to report that during 2005, EADS fully profited from its market leadership in the strong aviation market upturn and again substantially strengthened its position in the global aerospace and defence industry.



Left:
Manfred Bischoff
Chairman

Right:
Arnaud Lagardère
Chairman

For the sixth consecutive year, EADS surpassed its announced targets and consolidated its position as a driving force in global aerospace and defence. EADS confirmed its position as market leader for commercial aircraft with 100 seats or more in 2005 – a record year for the aviation industry – and has considerably increased its portfolio in the defence sector.

As planned from the foundation of EADS, the Board of Directors was renewed in 2005. At the same time, new CEOs and two COOs were appointed and a slight reshaping of EADS' divisional structure and headquarters organisation took place. EADS' Board closely supervised this process, guaranteeing continuity of strategy and reliability towards its stakeholders.

In 2005, the Board of Directors dedicated much time and attention to reviewing and ensuring successful strategy implementation with a focus on expanding into new markets and on widening the product range. Examples of this were the launch of the Global Industrial Development initiative as well as the regular review of the civil aircraft product portfolio, including the industrial launch of the A350.

EADS' competitive position in the international aerospace industry was an important topic for the Board. The Board looked into different ways of developing and positioning your Group for the future. It reviewed the opportunities to develop EADS from within, building on its strong existing capabilities, and studied possible scenarios for external growth.

Throughout 2005, the Board closely monitored and reviewed the progress of major programmes such as the Airbus A380, the A400M transport aircraft, Paradigm and UAVs. Regarding personnel and human resources issues at EADS, the Board dealt with management qualification as well as with the need to attract, retain and develop our high-potential employees in order to ensure the future quality of EADS' management and its multinational leadership structure. Finally, financial performance and structure, hedging strategy, funding policy and accounting principles were debated and decided among the Board members in a collaborative and trusting way.

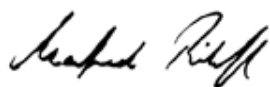
EADS was well positioned to benefit fully from the market upturn and so 2005 results once again surpassed its targets. With an EBIT of €2.85 billion, an impressive increasing order book, and a significant net cash position, the Group has shown that EADS' strategy and its implementation are on track, resulting in solid financial strength and profitability.

The year 2005 was also a very positive one for shareholders in many respects. Our share price clearly outperformed major indices, reaching an all-time peak on 22nd December 2005 at €33.45. This made us one of the strongest performers in the world aerospace and defence sector. In view of the Group's financial strength and excellent prospects, the Board will be recommending payment of a dividend of €0.65 per share, an increase of 30% from the previous year.

We are also determined to become a market reference in the fields of corporate governance and corporate social responsibility through ensuring transparent management and reporting, complying with market expectations with regard to social, legal and statutory standards. Therefore, to give guidance to EADS employees, the Group's Code of Ethics has been updated to reflect practices recommended by various codes and laws, and to align with best practice. It is based on EADS' underlying values and is fully in line with recognised international standards. As such, EADS' strategy envisions a sustainable balance between economic performance, consideration of all stakeholders' interests and respect for the environment.

The Board of Directors appreciates that the management of EADS has succeeded in establishing your Company as a credible and reliable enterprise, not only for its customers, suppliers and employees, but in the eyes of the public as well. Our thanks and congratulations are due to everyone in the Group who has contributed to this result, which will be developed and further enhanced for the benefit of all EADS stakeholders, according to the highest standards of corporate governance.

For the future, the Board has taken action to guarantee continuity in its operations and its composition. We remain committed to the success of EADS and the implementation of its strategy of seeking profitable growth in civil aviation, space and defence by setting the standards in these markets. This will allow us to continue creating substantial value for our shareholders and, furthermore, contribute to the well-being of all our stakeholders.



Manfred Bischoff
Chairman



Arnaud Lagardère
Chairman

EADS investment proposition

To invest in EADS is to buy a share in a global company with leading positions in growth markets in the aerospace and defence industry.

We are delivering



EADS has delivered on its goals. In the six years since its creation, we have achieved leadership in major markets, implemented industrial reorganisation on a massive scale, and we have increased the profitability of all our businesses through higher revenue and greater efficiency. In every year, this has led to financial results in line with, or ahead of, publicly stated targets.

We are building balance



Defence orders have grown in the past few years, and our defence businesses have become stronger, as major new programmes enter production and delivery. We progressively enhance our systems integration and provide 'networked' solutions for both complex defence and global security requirements. Further increasing the proportion of defence revenue, as well as profits, is our declared goal. That way, we also mitigate the cyclical nature of the civil aviation business.

We are becoming global



EADS has a strong presence in the largest, fastest-growing aerospace and defence markets globally. It is actively seeking to build its presence in these countries throughout the entire value chain. By becoming increasingly global, we are securing access to the countries with the greatest demand. We are doing so with ambition and with excellent resources in aerospace and defence.

We are positioned for growth



EADS is reaping the rewards of both the upturn in civil aviation and greater internal efficiency. Airbus has a record order book, defence activities are growing steadily and Space is gaining from increased productivity. A competitive and evolving product portfolio, improving operations and expanding international presence will drive growth.

A man in a dark suit, white shirt, and red striped tie is seated in a cockpit. He is looking down at a white document he is holding with both hands. The background shows the interior of an aircraft, including a co-pilot's seat and a control panel with a coiled cable.

Key to growing EADS, in
a more competitive world, are:
Improvement,
Internationalisation,
Innovation



EADS Chief Executive Officers
Thomas Enders (left)
and Noël Forgeard (right)
inside an EC 135

EADS' profitability has reached new heights and great, innovative products pave the way for future growth.

Dear shareholders, customers, suppliers and employees,

An outstanding year for the aerospace industry, 2005 has been a record year for EADS. Not only has the Company delivered its best overall performance yet, it also met or even exceeded its financial targets for the sixth consecutive year. We should like to thank everyone who contributed to this success.

2005 results confirm the Company's growth trajectory. Everybody working at EADS is committed to keeping up this momentum and to realising the Company's huge potential for the future.

In terms of profitability, EADS has reached new heights. The 2005 EBIT margin reached 8.3%, equalling €2.85 billion. It is worth pointing out that EBIT, net income and net cash have risen considerably more than revenue – which also increased substantially. Furthermore, great, innovative products pave the way for further growth.

A vision comes true – the A380

A whole new era in commercial aviation began when the A380 took to the skies for the first time on 27th April. This was an historic event – witnessed by tens of thousands at Toulouse and watched on TV by millions all around the globe.

What started as a bold engineer's sketch more than ten years ago will become part of passengers' and airlines' reality when this revolutionary aircraft enters into service. Offering comfortable and affordable air travel for the world's growth regions, the A380 shows what we mean by calling EADS a driver of change in global aerospace.

In fact, this Company is very much characterised by the technological and entrepreneurial quest for that 'step beyond'. In line with this thinking, we jointly took over the responsibility as CEOs in order to make a great company even greater and to build on the solid foundations laid by our predecessors.

Thomas Enders
Chief Executive Officer



Beginning the new chapter with a clear strategy

In 2005, the Company began a new chapter in its development. Our strategy emphasises four objectives: ensuring that Airbus remains a robust competitor, enhancing the operational and financial performance of our space, defence, and helicopter businesses, expanding our global footprint, and ultimately delivering best-in-class profitability across our businesses.

Last year's results and initiatives confirm the Company is making good progress towards achieving these strategic objectives.

In 2005, for the third year in a row, Airbus led the industry in terms of units delivered, and for the fifth consecutive year in terms of new orders. Yet competition has stepped up its efforts to recapture lost ground. We will counter this challenge.

Eurocopter, with its strong performance in revenues and earnings, reinforced its position as market leader of the rotary wing sector. Additionally, the Group's Military Transport Aircraft and Space Divisions showed significant improvement in their financial performances.

We see EADS' unwavering commitment to its Space business corroborated not only by the successful turnaround already accomplished, but also by the fact that in EADS' institutional Space business annual growth of 2.5% is already secured up to 2010.

EADS' highly attractive and exportable platform portfolio with 'blockbuster' products such as the A400M, the Eurofighter and the NH90 and Tiger helicopters, as well as various advanced missile systems, is proving to be successful in markets around the globe. The Company is also developing its defence business towards large systems integration, and the provision of complex solutions both in defence and global security. Based on our expertise in PFI (Private Finance Initiative), gained particularly through leading the two largest defence PFIs in the United Kingdom, we plan to make services, supported by innovative financing, a core offering.

The acquisition of Atlas Elektronik, a leading maritime defence electronics company, carried out in partnership with ThyssenKrupp, underlines EADS' determination to strengthen the Company's systems capabilities in the naval field. EADS carefully evaluates all options for further acquisitions and consolidation.

EADS strengthens its presence in growth markets

During 2005, the Company made great progress in expanding its global reach. Practically half of all new Airbus orders came from China and India. And China's air traffic is expected to more than double in the coming five years. EADS is determined to seize the growth opportunities of globalisation.

Accordingly, we have forged several important alliances with US, Chinese, Russian and Korean industrial partners, embarking together on highly promising co-operation and co-development projects, both civil and military.

In the United States, EADS has expanded its industrial footprint and is well positioned for major projects with the Air Force and the Army. NorthropGrumman decided to partner with us for the renewal of the Air Force tanker fleet. In South Korea, Eurocopter was selected as the nation's primary partner for development of the first local military transport helicopter. With China, two strategic agreements were signed, covering the co-development of a new multi-purpose helicopter, the EC175. EADS will make further inroads into the most promising growth markets in months and years to come.

At the end of 2005, the Company's order book stood at an unmatched €253.2 billion, reflecting the strong business momentum of EADS' operational units. Their order intake more than doubled to almost €93 billion. All of this provides us with an excellent foundation for continuing the Company's unique success story.

The way forward: three major development thrusts

Since our appointment in June, we have concentrated on devising the way forward for EADS, focusing on the Company's growth perspectives, top and bottom line, in an aerospace and defence industry environment defined by intensifying global competition.

Under the heading of 'Triple I', we have introduced a Group-wide programme providing a comprehensive roadmap towards further growth:

- Making sure through continuous **Improvement** we benefit fully from our huge order book, raising EADS' operational performance in terms of cost, quality and on-time delivery. State-of-the-art tools and processes, successful implementation and execution of Improvement projects through all Divisions and corporate functions, and a particular focus on managing the ever-more complex supply chain, will therefore be given highest priority in the years to come.
- Creating new mid-term growth opportunities through **Internationalisation**, we are set to expand the Company's footprint in the commercial, security and defence markets with the most dynamic development. EADS plans to be a strong local industrial player in key countries, such as the United States, China, Russia, South Korea and India. Apart from market access, being a corporate citizen in these key countries will allow us globally to recruit the best talent and technology there is. We are convinced that with its European background, this Company is exceptionally well prepared for becoming a truly global industrial Group.
- Finally, through **Innovation**, we lay the foundations for tomorrow's growth, shaping the future of our Company and that of the industry. With our initiative to speed up innovation, for example by increasing technology readiness levels, focusing on game-changing technologies and introducing a Chief Technology Officer at Group level, we will ensure that EADS maintains the innovative edge that differentiates our products in the competitive landscape.

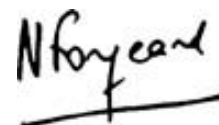
Stepping forward together

While striving to become stronger, EADS never forgets its responsibility for those in need. Both during the tsunami catastrophe in South East Asia and when hurricane Katrina hit the southern United States, EADS sent mobile hospitals, helicopters and transport aircraft to the affected areas. On both occasions, EADS employees showed great commitment and generosity, and we want to thank them for their support.

We have set the Group ambitious targets and defined a clear roadmap that we believe will ensure EADS' success in years to come. Looking back at an outstanding 2005, the Company is assertively preparing its future. It will be a demanding journey, but one that we embark on with confidence.



Thomas Enders
Chief Executive Officer



Noël Forgeard
Chief Executive Officer

Noël Forgeard
Chief Executive Officer





Improvement

Enhancing our business

As a global aerospace and defence company, we always need to put customers and shareholders first: customers expect performance as promised and shareholders expect the best possible return on their investments. Continuous improvements are key to ensure fulfilment of expectations.

EADS is continually leveraging groundbreaking technologies to develop products that provide its customers with competitive advantage. Yet the ambitious nature of EADS' new programmes brings operational challenges, both within EADS and at its sourcing partners. These may concern product development or the associated manufacturing processes.

In 2005, the CEOs made improvement a key element of their long-term strategy. They have initiated a Group-level examination of how operational processes can be improved to ensure that maximum control over programmes is delivered on quality, on specification, on cost and on time, and how best practice can be better shared within the Group.

In view of the increasing role of innovation in accelerating new product development and internationalisation in fostering future growth, operational improvement is more essential than ever. As a technology leader in aerospace and defence with industrial partners across the globe, EADS' need for world-class operational processes will be vital.

EADS' long-term improvement initiative will focus on execution of the key operational processes that flow across engineering, manufacturing and procurement. In particular, it will concentrate on new product introduction and the supply chain. It will build on programmes already started, pooling resources across the Group, giving people the skills they need to make real improvements, and implementing best-of-breed processes and information technology tools.

Mastering tried and tested solutions

When enhancing the processes behind introducing new products, EADS is looking to master solutions adopted by other technologically advanced industries. Cultural change is a priority. The challenge is becoming greater as EADS is ever-more dependent on key suppliers for product development. As EADS increasingly becomes the architect and integrator, so it must develop a spirit of true partnership with suppliers.

In the supply chain, EADS can adapt cutting-edge processes and supporting information technology solutions. In order to achieve world-class supply chain performance, it will be necessary to utilise state-of-the-art IT tools that complement those already being used in the Business Units.

Early-stage initiatives, like enhanced Customer Reviews or the Black Belt programme for building internal experts in the field, were well received by the Business Units during 2005, and there is strong demand for operational support.

Improvement – a strategic priority

Raising EADS' operational performance in terms of cost, quality and on-time delivery will ensure we benefit fully from our huge order book.

Route 06

Airbus has already carried out a similar improvement drive as part of its Route 06 initiative. Although primarily aimed at driving down cost, Route 06 is creating a much leaner and more efficient organisation, as indicated by a striking reduction in lead times. Between 2003 and 2005, the lead time between a buyer of a single-aisle aircraft stating its required specification, in terms of engines and cabins, and delivery, was reduced from nine to seven months. The experience of Route 06 can be used to make similar improvements in other parts of the Group.

In 2004, the Defence & Security Systems Division started a comprehensive 'Programme and Risk Management' (PRM) initiative, aimed at enhancing these critical skills and associated processes on a sustained basis throughout the Division. This programme will also be considered for Group-wide application.



AS350 helicopter

Internationalisation



Globalising our business

Internationalisation will make us part of the most attractive markets and allow us to tap the best resources worldwide. It will fuel our growth.



In selected countries, EADS is seeking to enhance its industrial presence significantly throughout the value chain – developing, manufacturing and selling in these major marketplaces.

In 2005, the CEOs decided to make global industrial development a key dimension of the Group's long-term strategy, and to dedicate a team to driving its implementation. The aim is to ensure future growth by becoming an integral part of growth markets and accessing the best resources worldwide. EADS is developing an industrial strategy for each of the key markets it has identified. The target is to capture growth in the most attractive markets through a selective industrial approach, while further developing the industrial base in the four home countries.

Aerospace and defence is a global industry. As such, globally allocated capabilities of research, development, sourcing, manufacturing and after-sales service are increasingly factors for success. Being active in all-important aerospace and high-tech countries gives EADS access to the best technology and know-how available. This improves its products and gives them a competitive advantage. It also has the benefit of reducing exposure to the Euro by balancing production costs across several currencies.

Additionally, governments often exercise strong control over markets and prefer to buy from local contractors – at the very least, they expect contractors to source significant contract percentages locally. Therefore, to continue its growth, EADS believes it is essential to become a local company, a good neighbour and a committed citizen in its target markets.

Focusing on the most attractive markets

EADS is focusing especially on the United States, the largest single market; on Asia-Pacific, the region with the highest growth potential; and on Russia, where a very capable aerospace industry is beginning to regain its former strength. Within Asia-Pacific, countries like China, India and South Korea are of high priority.

These countries have the greatest demand potential and are home to companies that would make high-quality partners with industrial capabilities, as well as local market know-how. On a global basis, the North American defence market and the Asian commercial and defence markets are the fastest-growing. In addition to these countries, EADS will further pursue its successful strategy of co-operation, and will acquire local players in all key markets. Examples of this are Patria in Finland and Australian Aerospace Industries, both creating growth opportunities and market access in their respective markets.

Global industrial development – a long-term theme
Internationalisation allies EADS' fortunes with those of countries that have large or growing aerospace and defence markets, assets and capabilities.

Achievements for 2005

The greatest achievements for this strategy in 2005 were in China. In December, Airbus and the National Development & Reform Commission of China (NDRC) agreed to expand industrial co-operation. At the same time, the China Aviation Supplies Import and Export Group (CASGC) signed an agreement for the purchase of 150 A320 Family aircraft, China's largest-ever aircraft order.

Also in December, China's AVIC II aerospace company and Eurocopter agreed to co-develop a six-seven-ton civil and parapublic helicopter, the EC175. A similar agreement was struck in Korea with Korea Aerospace Industries, for the co-development of an eight-ton military transport helicopter.

Substantial progress has also been made in the US, through teaming with major US primes on important programmes, (eg the renewal of the US tanker fleet), smaller acquisitions and the development of industrial ties in the southern US.

Protecting our core assets

EADS will, while globalising its operations in various ways, still continue to strengthen its role in the four home countries, benefiting from the strong European industrial and technological base. Any project is subject to careful review of its consequences in terms of technology transfer, intellectual property rights and continuity of operations in Europe. These are key elements of any decision.

For EADS, globalisation is a strategic must for profitable growth. As a multinational entity since inception, EADS has the skills for global success.



Outer flap of an A380 wing



Driving our business

Innovation creates competitive advantage for our customers, it means cheaper, quicker and safer processes for EADS, and it creates high-value jobs where EADS operates or sources.

Innovation

The development of new products, services and processes that bring competitive advantage to customers are at the core of EADS' strategy. This has led to the family concept for Airbus planes, greater use of composites in planes and helicopters, the first fly-by-wire helicopters and the first PFI for military communications.

EADS invests substantially more than any of its competitors in innovation. In addition to institutional and government-financed research and development (R&D), the Group spent €2.1 billion on self-financed R&D during 2005, equivalent to over 6% of revenue. The Group also invested more than €600 million in research and technology to develop technologies for future products, services and processes.

Accelerating technology research and product development

To enhance the pace and relevance of innovation, management is reinvigorating technology research and product development. Speed is a key factor, and the Group will focus on ensuring the readiness level of new technologies at a much earlier stage. EADS' capabilities will be continuously benchmarked, ensuring that the Company remains at the forefront of developments and, in particular, responsive to breakthrough technologies.

EADS will further strengthen its approach to systems architecture and engineering skills and tools by streamlining the use of design and engineering tools. Ambitious targets to reduce development times by up to half for major platforms have been set. There will be fewer tools, but these will be used Company-wide, as well as implemented in suppliers' and partners' organisations, increasing overall homogeneity.

New technologies are being introduced to save both cost and time. One day, virtual mock-ups will take over from flight tests and iron birds. The wind tunnel will be replaced by digital simulation tools. Development programmes will be shared seamlessly across the Company, with suppliers and partners around the globe striving for progress independent of time zones and Company structures.

To cover all aspects and achieve its ambitious goals, EADS will open up more to the outside. Technological programmes developed with either academic or industrial partners on an international basis will therefore have at least doubled by 2010.

Innovation at core of success

New products, services and processes drive value creation for customers and, in turn, shareholders.

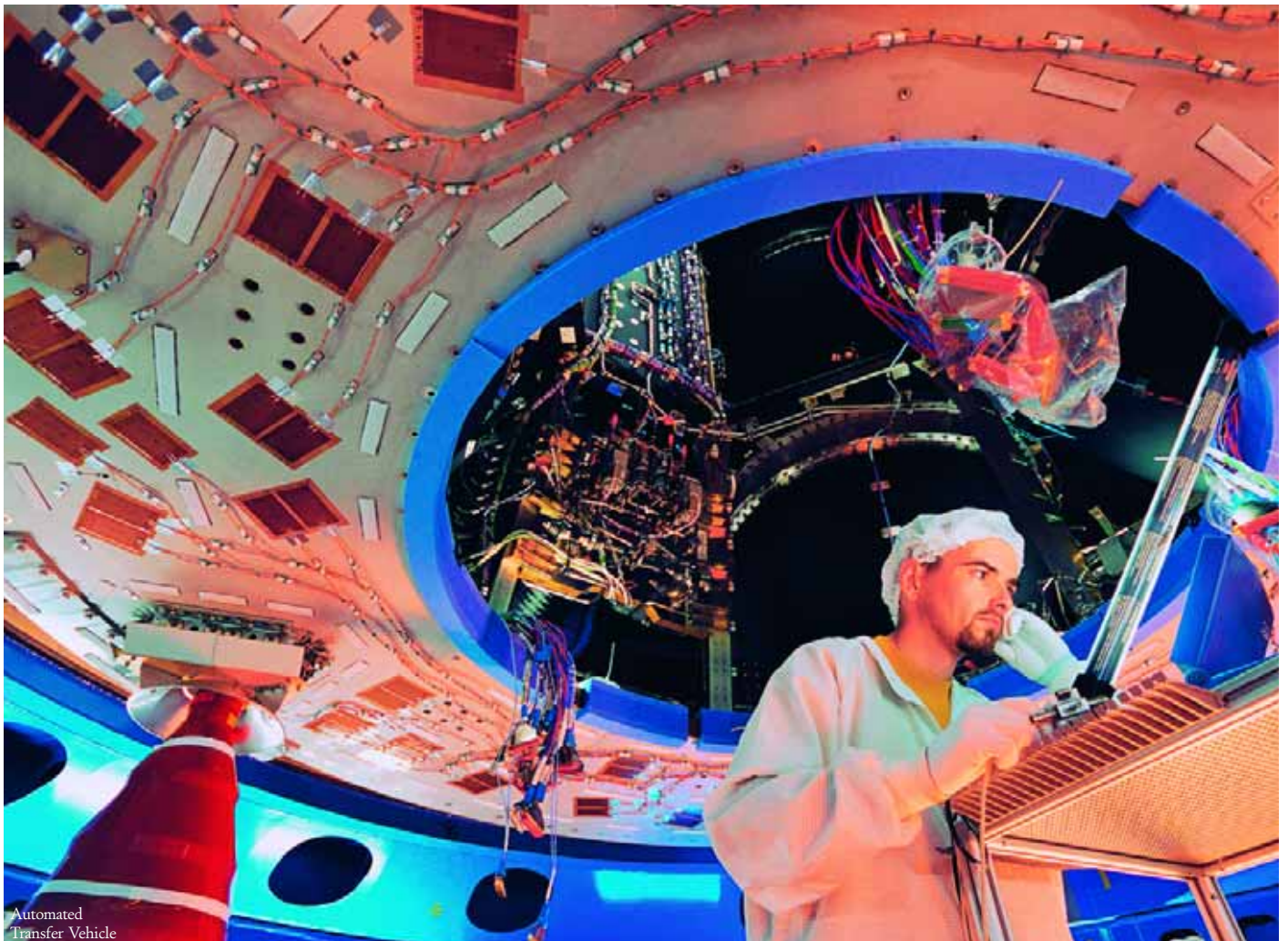
Defined areas of focus for technology innovations are, for example, advanced sensor systems, material and structures, alternative energy concepts and human-friendly platforms.

Driving principles Innovation

A typical example of recent developments is the first flight in September 2005 of a helicopter using adaptive rotor blades, which can significantly reduce noise and vibrations. The technology demonstrator's rotor flaps are powered by actuators made from 'smart materials'. Following successful flight testing of the experimental system, it will be developed for series production.

Another example is the completion of the Airbus Visual Line (AVL) system on the shop floor at its final assembly stations in Toulouse. With its large electronic displays, it has replaced all paper printouts, providing detailed information about the work in progress, any problems and their resolution.

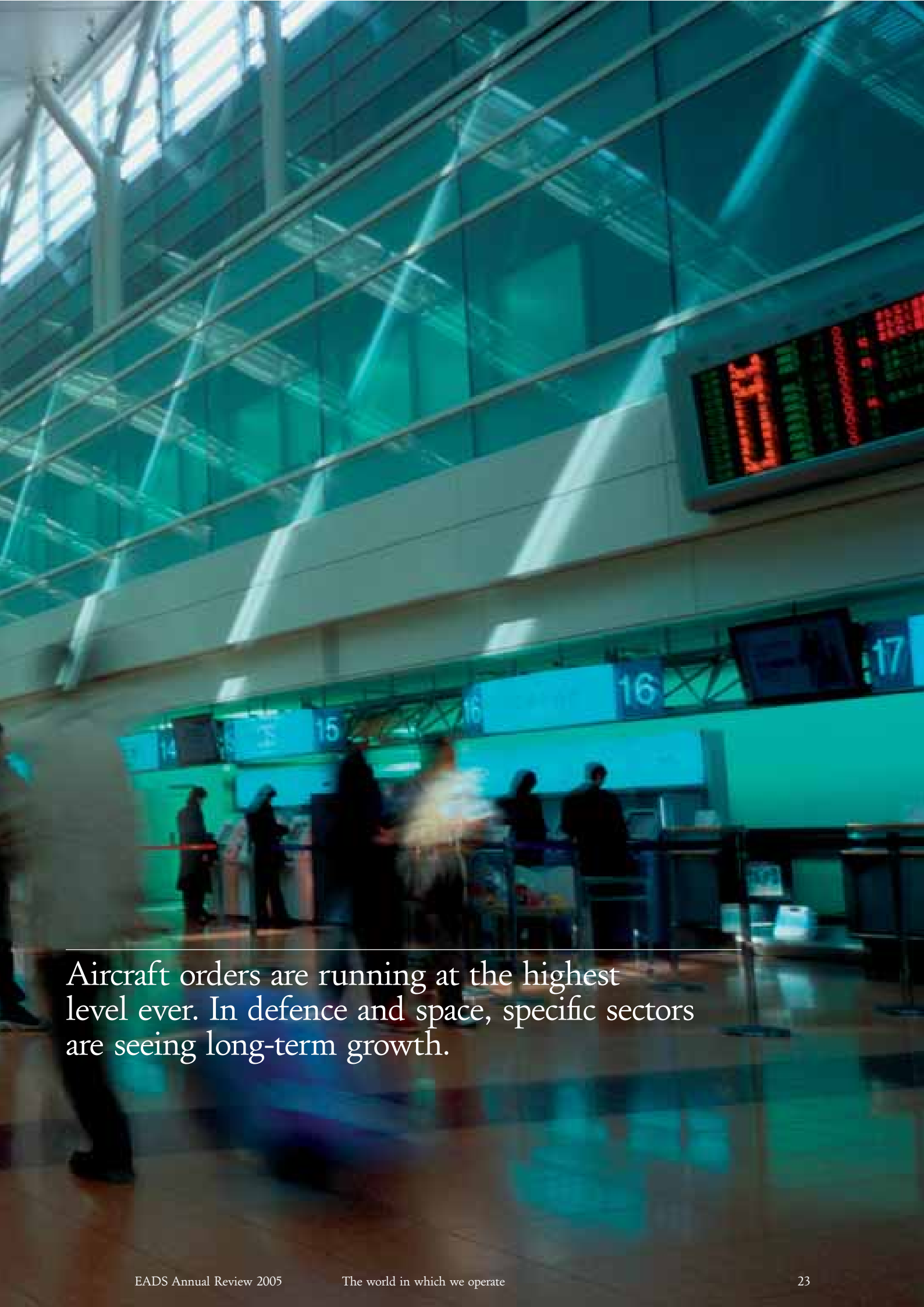
EADS will strive to go to the very limit of the achievable, delivering relevant breakthroughs and mature technologies as early as possible. This is challenging, but rewarding, and will bring further competitive advantage and nurture further growth; securing jobs, as well as bringing superior long-term shareholder value.



Automated
Transfer Vehicle



The world in which we operate



Aircraft orders are running at the highest level ever. In defence and space, specific sectors are seeing long-term growth.

The world in which we operate

Commercial aviation

Airlines are ordering an unprecedented number of commercial aircraft, motivated by the launch of key new planes, strong demand from low-cost carriers and the rapid growth of aviation in Asia. The high price of oil is also boosting demand for fuel-efficient aircraft.

The two leading aircraft manufacturers combined secured 2,140 new orders for aircraft of 100 seats or more last year, compared with an all-time high of 1,528 in 1989 and 1,138 at the peak of the last cycle in 2000. As recently as 2003, orders touched a cyclical low of 524. Other commercial markets of interest to EADS are also in an upswing. Civil helicopter deliveries were up 15% globally measured by volume, and 30% by value.

Several new-generation planes were launched during the year. The aircraft manufacturers are taking advantage of new materials such as composite and other technologies to design planes that are more fuel-efficient, while at the same time improving comfort. In addition, these aircraft cost less to maintain. New-generation aircraft can be between 40% and 55% more fuel-efficient than older-generation aircraft, depending on model and type of operation. According to the Air Transport Association, US airline fuel efficiency has tripled since 1971. New-generation aircraft will improve efficiency still further.

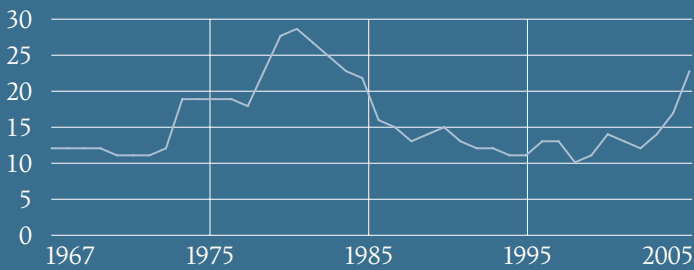
But the price of fuel and the rise of competition, mainly through the low-cost business model, is eating relentlessly into the higher revenue earned from ongoing traffic recovery. As oil prices have rallied, so jet fuel has risen still more, averaging approximately US\$60 in 2005, against roughly US\$30 in 2002. Forecasters do not see significant falls from these levels. In order to counter this, airlines are reducing workforces and the weight of on-board equipment through, for example, removing on-board phones, galley equipment and excess water. They are also using more precise navigation. At the lower end of the commercial market, higher fuel prices are encouraging a sales boom for turboprop planes, which are both fuel-efficient and have low CO₂ emissions.

Airline profitability varies widely across the world. While the International Air Traffic Association (IATA) estimates losses totalled US\$6 billion in 2005, this is concentrated in the United States (US\$10 billion losses). Three US airlines are currently in Chapter 11 bankruptcy as they seek to reorganise their affairs. US legacy airlines are beleaguered by high labour and welfare costs. They have succeeded in reducing labour costs, but fuel price rises have wiped out the savings.



ATR 72

Fuel cost in total airline expenses (%)



At US\$1.70 per gallon, airline fuel costs as a percentage of total expenses is close to 25%
Source: ICAO

Traffic growth

Traffic is continuing its recovery. International Civil Aviation Organisation (ICAO) preliminary figures show scheduled traffic measured by revenue passenger kilometres (RPK) increased by approximately 7.5% in 2005 compared with 2004. Capacity additions, measured by available seat kilometres (ASK), increased more slowly, resulting in higher load factors and asset utilisation. Growth was greatest for the airlines in the Middle East followed by those in Latin America while Asia-Pacific and European growth was similar to the world average. Growth in the United States was more muted due to the severe hurricanes.

Asia's airlines are currently the most profitable and are expected to gain most from the growth of air travel. Chinese traffic expansion will be the fastest worldwide, according to Airbus, with average annual growth in RPKs of 8.2% over 20 years, compared with a 5.2% global average. By 2023, Asia-Pacific is expected to have a 31% share of world traffic, with Europe having 32% and North America 26%. Today's split is 33% North America, 32% Europe and 25% Asia-Pacific.

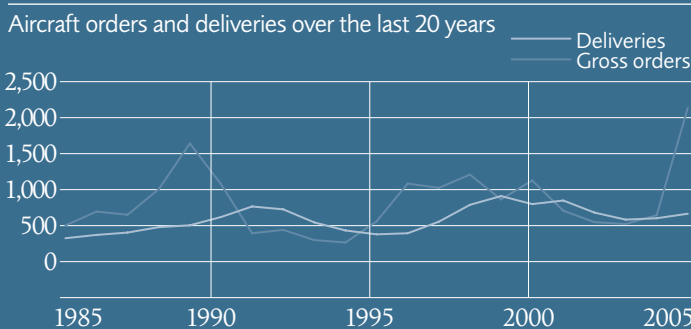
Looking forward, according to the Airbus Market Outlook, global passenger traffic will grow three times to nine trillion RPKs between 2004 and 2023. To fulfil this growth, airlines will invest in 16,600 new passenger planes with a seating capacity above 100 seats, and 700 new freighters. In the helicopter market, industry experts anticipate between 2,600 and 3,000 new civil use helicopters to be delivered during the next five years. Corporate, emergency medical services, oil and gas, and national parapublic helicopters (eg homeland security, law enforcement, and fire fighting) are expected to lead the market. North America will remain the biggest market, while emerging Asia will contribute most to future growth.

Defence and security

The sector's main growth driver remains the necessary replacement of ageing platforms, with up to 90% of future global defence procurement platform-related. This is increasingly spurring long-term growth for support aircraft (tankers and transport), mission aircraft including Unmanned Aerial Vehicles (UAVs), helicopters, combat ships and light armoured vehicles (incorporating complex electronic mission equipment). At the same time, as forces undergo transformation they are demanding new capability-based interoperable solutions for joint missions. The changing nature of threats, in particular from rogue states and terrorists, is also creating demand for specific types of military and security equipment.

An expanding proportion of procurement will be acquired through new methods. Globally, governments are increasingly interested in buying services from the private sector. To fulfill these requirements, defence contractors have to offer not only high-performance services, but also innovative contract schemes.

Buying integrated systems is another procurement trend. Certain customers want the industry to deliver complete interoperable systems with command and control decisions based on a common operational picture. Only large defence and security contractors have the range of capabilities to act as prime contractors for such complex integrated systems.



Source: Airbus, Boeing, MD

The world in which we operate

Defence procurement in the US (US\$147 billion in 2005) and Europe (€55 billion in 2005) will continue to grow at ~1% per year over the long run. In emerging Asia, budgets are rapidly increasing. EADS estimates that spending was close to US\$100 billion in 2005, and will grow more than 2% per year over the long run. However, the larger part of Asian budgets is only accessible for local players. Middle Eastern equipment imports remain stable at a high level.

Global security offers a new opportunity for most defence contractors, as governments increasingly prioritise building national security infrastructures following 9/11. EADS estimates the size of this market was more than €35 billion in 2005, and will expand at a rate of more than 10% per year outside the United States.

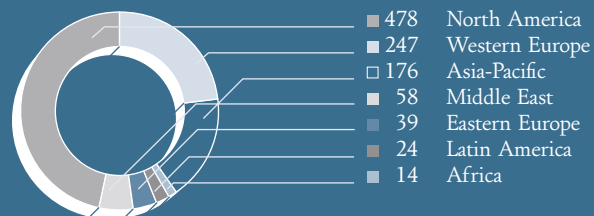
Helicopters is one of the fastest-growing defence sectors. Demand from Europe and the United States for transport and attack helicopters is fuelling this in the short term, but Asia will provide the most significant growth in the medium term. Out of total estimated sales of 7,200 military helicopters until year 2020, a clear majority will be sold outside the US market. Additionally, security forces, such as border patrols and the police, need increasing numbers of helicopters. Commercial helicopters will tend to be adapted for these specific security needs.

In combat aircraft, there is a need to replace ageing fleets (40% of the 7,000-strong world fleet is more than 25 years old). The future is dominated by major programmes under development coming into production. Europe's Gripen, Rafale and Eurofighter aircraft have all entered production, while the new US F35 is still in development. Russian alternatives are successful in markets with lower requirements. While these replacement needs are likely to materialise before Unmanned Combat Aerial Vehicles (UCAVs) are fully introduced, the first UAV programmes are already being developed for surveillance and reconnaissance.

Airbus and Boeing are both addressing the worldwide need to replace refuelling aircraft. Meanwhile, the candidates to replace large and medium transport aircraft are the very large C-17 from Boeing, the C-130 from Lockheed Martin and EADS' new challenger, the A400M. In the smaller transport aircraft segment, Finmeccanica and EADS are the global competitors.



World military expenditures in 2004 (US\$bn)



Source: S.I.P.R.I. Yearbook 2005

In the missile sector, the greatest growth is expected from Asia-Pacific, although the Middle East will continue to be a major destination for US and European export campaigns. A significant factor in winning such opportunities is co-operation with platform providers for air and naval solutions. The United States accounts for half of the world market, while Europe and the rest of the world each share one quarter.

Industry consolidation is likely to continue, as defence companies look for opportunities to build and infill their portfolios as well as to buy into new regional markets. In 2005, BAE Systems acquired United Defence Industries, the US land systems company, while EADS and ThyssenKrupp Technologies jointly acquired Atlas Elektronik, the German naval electronics company.

Commentators in the investment community have noted these healthy long-term growth trends for contractors with the appropriate mix of equipment and services. At the time of publishing an extensive research study in September 2005, Goldman Sachs Group, Inc. raised its view of Europe's aerospace and defence industry from neutral to attractive.

Space

Military:

Within Europe, defence spending on military satellites is expected to grow significantly due to spending on secure communications systems, early warning systems, reconnaissance, signal intelligence and navigation. At present, national budgets total approximately €1 billion per year. The US military space budget remains by far the largest worldwide, at approximately US\$17 billion, according to official sources. Foreign companies wishing to access this market need to partner a US defence company.

Secure communications is in demand due to increasing deployment of armed forces overseas. Rather than buying equipment, many defence ministries are signing Public Private Partnership (PPP) contracts. Under this model, the service provider builds the satellite and continues to own it, but is paid for the service. This has the advantage of offering better value to defence ministries, and surplus satellite capacity can often be sold by the operator to another user.

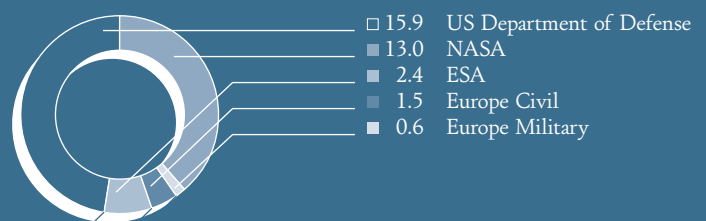
Civil institutional and commercial:

Demand for telecommunication satellites is steady, following the downturn in the early part of this decade. The industry expects commercial satellite orders to average 18-20 a year in the near term. Some 19 were ordered in 2005.

Meanwhile, the European Space Agency (ESA) Ministerial Council meeting of 5th-6th December 2005 in Berlin was a success for the industry, confirming the ESA space budget of €8.26 billion from 2006 to 2010 and unanimously adopting a series of favourable resolutions. This provides certainty that current civil institutional programmes will continue.

The Council also made a resolution designed to encourage European countries to favour European launchers for satellite launches, common practice in the United States, China and Russia. Additionally, ministers granted a 2.5% annual increase over five years to the ESA's science programmes budget.

US and Europe governmental space budgets 2005 (€bn)



Based on 2005 average exchange rates €/US\$ = 1.24
Source: ASD-Eurospace



Exo Mars

(€m)	2005	2004	Variation
Revenue	22,179	20,224	+10%
EBIT	2,307	1,919	+20%
Order intake	78,254	25,816	+203%
Order book	201,963	136,022	+48%

In number of aircraft	2005	2004	Variation
Deliveries	378	320	+18%
Order book	2,177	1,500	+45%

In 2005, Airbus received more orders than ever before in its 35-year history, maintaining its industry leadership in terms of both number of orders and deliveries. Production rates were steadily ramped up in line with the record order backlog. This success reflects both unprecedented demand for new aircraft and Airbus's use of innovation to provide airlines with the fuel efficiency and operating flexibility that they need.

The year was significant for Airbus's two new aircraft programmes. The A380 double-deck airliner flew for the first time on 27th April. Not only is the 555-seat plane the largest to fly, it is also the most technologically advanced, with advanced aerodynamics, high-pressure hydraulics and increased use of carbon fibre-reinforced plastic. The A350 250-300-seat, wide-bodied long-range aircraft was launched in October, offering airlines the technology available on the A380.

In terms of costs, the Route 06 cost-saving programme, which was launched in 2003 with a €1.5 billion cost reduction target for 2006, is on track. While the programme is being implemented, there is now a focus on continuous efficiency improvement, both within Airbus and among its suppliers.

Confirming leadership

2005 was a record year for Airbus in terms of deliveries, order intake, order book and profitability.

Airbus

Airbus achieved its highest-ever revenue in 2005. At €22.2 billion for the year to 31st December 2005, these were 10% higher than 2004 (€20.2 billion). Deliveries of 378 aircraft of 100 seats or more, compared with 320 in 2004, was the chief driver of this increase. EBIT grew by 20% to €2.31 billion (€1.92 billion in 2004), and the EBIT margin expanded to more than its 10% target (9.5% in 2004).

Airbus was responsible for 56.6% of 2005 deliveries, and has now delivered 4,130 aircraft to airlines since its inception. Production rates are steadily increasing on both the A330/A340 line and the single-aisle line, and will reach a scale of 7.5 and 30, respectively, per month in the spring of 2006. The output of the A320 line is the highest ever achieved by any aircraft manufacturer. It has been made possible due to flexible production techniques and strong production lead-time reduction.

Order book

2005 was an unprecedented year for new orders, with Airbus taking 1,111 firm orders valued at some US\$95.9 billion at catalogue prices. This was well ahead of Airbus's previous record year, namely 1998 with 556 orders, and gave Airbus a market share of 52% in terms of aircraft units and 45% in terms of value. This leaves Airbus with the largest order book it has ever had, totalling 2,177 aircraft valued at some US\$220.3 billion at list price. In terms of order book size, it has a 55% market share.

The majority of 2005 orders came from Asia and the Middle East, with some substantial orders also coming from Latin America and from Europe's new low-cost carriers. The largest orders came from China, including the order for 150 single-aisle aircraft placed by the China Aviation Supplies Import and Export Group (CASIG) in December, for which down payments have been received. Leasing companies also continued to play an important role, placing orders for up to 195 aircraft.



A380

New orders for A380 included contracts signed with three customers for 20 aircraft, exceeding the target of one additional customer a year until entry into service. These new customers include the first in China, China Southern, the first in India with Kingfisher, and a second large freight carrier, UPS, based in the United States. The orders clearly reflect the benefits of the new double-deck plane's unprecedented capacity to Airbus customers. Total firm orders for the A380 now stand at 159 from 16 customers. Certification is planned in time for delivery to the first customer, Singapore Airlines, by the end of 2006.

The new A350 250–300-seat long-range airplane won 172 orders and commitments from 13 customers between its October launch and the year end. Some 87 of these were firm orders from nine customers and leasing companies. Commitments for this new model are substantially higher than they were for its direct competitor in the medium capacity long-range class at the same period of time after commercial launch. They reflect well on the commercial appeal of the aircraft, including its advanced technology and its operational commonality with the rest of the Airbus families.

The long-range A330, A340 and A350 Family took 166 orders from 18 customers, its highest-ever level of annual gross orders. The market for new aircraft in this 250–300-seat long-range market is estimated to rise to more than 3,000 aircraft over the next 20 years.

Most of the orders were for the highly successful single-aisle A320 Family. With 918 orders, its highest-ever order intake, it achieved a 62% market share and continued as market leader in this segment. With an order backlog of 1,652 aircraft, the A320 Family is the preferred choice of low-cost operators, which placed more than a third of the year's orders. This Family is also the clear favourite of the Chinese aviation market.

A320 derivatives sold well in the corporate jet market, with the Airbus Corporate Jetliner Family logging 15 firm orders. This took the total number of orders for the Family to more than 60.

Becoming global

In order to adapt to secure growth for its shareholders and its employees, Airbus is seeking partnerships with industrial organisations in China, Russia, the United States and other countries.

Ties with Chinese civil aviation were extended during the year, following the signing of several agreements for increased co-operation. Two contracts signed with China Aviation Industry Corporation I and II (AVIC I and II), the state-owned aviation organisations, were followed in December by an agreement to study the feasibility of an industrial partnership to set up an A320 final assembly line in China. Today, five Chinese companies from AVIC I and II are involved in manufacturing parts for the single-aisle Family. Airbus is committed to increasing procurement volumes to reach US\$60 million per annum by 2007, and US\$120 million by 2010.

Collaboration with Russian companies was also expanded. In August, Airbus and Irkut, the Russian scientific production company, signed a preliminary agreement outlining Russian participation in the development of the A350 and future aircraft programmes. By 2007, Airbus intends to offer Russian companies contracts with an aggregate value of US\$110 million annually. Airbus originally opened its Moscow office in 1995. Its Russian programme covers numerous research and technology projects and design work, as well as wide co-operation in the certification field.

Airbus's presence in North America was enlarged with a new engineering centre in Mobile, Alabama. This new facility will work on commercial and military derivative aircraft – including the A330, A340 and A350 jetliners, and the KC-30 advanced military tanker. The centre is due to begin operations in 2006 and is expected to employ approximately 150 people.

In Australia, Airbus extended its research partnership by establishing a research and technology framework agreement with the Melbourne-based Co-operative Research Centre for Advanced Composite Structures.



Airbus painting centre

Customer services

As part of its continuous drive to improve customer service, Airbus moved its customer services department to new offices on its Toulouse site, where it installed all 1,000 staff under one roof. The offices have a 24-hour call centre.

Airbus took several steps designed to help its customers make cost savings. Most importantly, it froze the price of spare parts for the third year running. It also decided to place all technical data online, or on CD-ROM, which will save airlines time and reduce their costs. Additionally, Airbus designed a fuel management software programme for airlines. The web-based AirS@vings provides fuel cost index values for either individual flight journeys or city pairs. It helps to reduce and optimise fuel consumption.

Online services were upgraded with a new business-to-business portal called Airbus World, where airlines and operators can share information. This is complemented by a new spare parts e-catalogue.

Airbus also set up the first Maintenance Repair and Overhaul (MRO) network, with 13 MROs, in order to help airlines find the best quality maintenance services wherever they are. This was complemented by the Airbus Modular Spares Service, a comprehensive support package designed to help airlines improve management of their spares stock. Once again, this is intended to save airlines time and money.

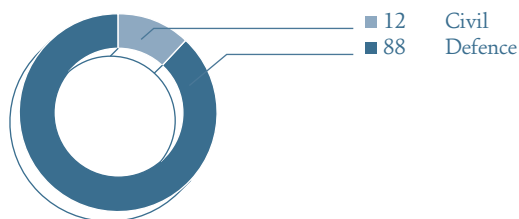
Outlook

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/US 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.

(€m)	2005	2004	Variation
Revenue	763	1,304	-41%
EBIT	48	26	+85%
Order intake	1,840	1,176	+56%
Order book	20,961	19,897	+5%

Revenue by market (as % of external revenue)



The Military Transport Aircraft Division delivered higher EBIT in 2005, benefiting from the restructuring completed in the previous year. It made progress in export campaigns for all classes of aircraft, including the high-value A400M transport and refuelling aircraft based on Airbus platform, benefiting from re-equipment cycles in these areas. EADS CASA maintained its global leadership in medium and light transports, as shown by its selection for two of the largest contracts ever awarded by the Brazilian government.

EBIT rose by 85% to €48.4 million compared with €26.2 million in 2004. This reflected the successful restructuring and the absence of associated costs. Revenue was €763.3 million (2004: €1.3 billion). This decrease primarily reflects the negative (€0.5 billion) impact of the shift of revenue recognition for the A400M programme until the first quarter of 2006.

New orders totalled €1.8 billion, with both the A400M and EADS CASA medium and light aircraft winning large orders. The order book grew slightly, ending the year at €21.0 billion (2004: €19.9 billion). A number of contracts and Declarations of Intent were signed that will lead to firm orders in the 2006 financial year.

First export orders for A400M

The A400M won its first export orders, as governments sought to upgrade their old-generation, heavy transport planes. South Africa signed a firm order in April for at least eight and Malaysia signed a contract in December, which will be booked in 2006, to buy four. Added to the 180 ordered by the European launch countries, this brings the total to 192. In a sign that more orders are on the way, in July the Chilean government signed a Declaration of Intent to acquire up to three.

Winning export orders

Contracts in Asia, Africa and Latin America confirmed the Division's leadership in medium and light transports, and included the A400M's first export orders.

Military Transport Aircraft

Additionally, the Brazilian government awarded EADS CASA two large export orders. EADS CASA will supply 12 C-295 medium transport aircraft for supporting people in the remote Amazon. It will also modernise eight P-3 maritime patrol aircraft, installing them with mission systems (FITS). These are the biggest contracts ever signed between EADS and Latin America.

In line with EADS' Global Industrial Development strategy, all of the Division's export agreements involved local subcontractors.

MTA's strategy for participating in the US defence market advanced significantly. In September, EADS joined Northrop Grumman as principal subcontractor in its bid for the US Air Force's new-generation KC-30 refuelling aircraft. Additionally, a partnership agreement was signed in May with Raytheon to bid for the US Army's Future Cargo Aircraft programme.

Industrial progress

Production of the A400M has started and construction of the final assembly line in Seville, Spain is under way. Continuing the change in the workforce required for the new A400M and tanker programmes, approximately 150 engineers joined the Division, taking the total workforce to around 4,000.

The first of the five A330 Multi-Role Tanker Transport Aircraft (MRTT) ordered by the Australian Defence Forces is currently being manufactured by Airbus. Three prototypes of the innovative refuelling boom, with electronic fly-by-wire controls, have been completed.

Outlook

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 US, it is in bidding partnerships with Northrop Grumman and Raytheon in particular for the tanker replacement programme and for future cargo aircraft jointly procured by the Army and Air Force. Finally, Portugal's early 2006 order of 12 C-295 aircraft will add to revenue.

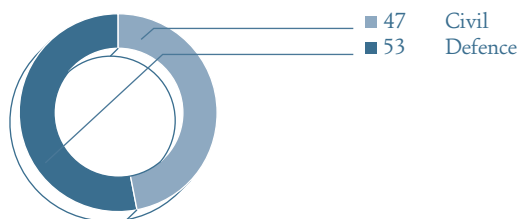
Looking forward over the next few years, the Division will deliver higher revenue and EBIT. Both the A400M and tankers will make a substantial contribution to the expansion. Additionally, the Division is in a strong position to expand its order book in medium and light military transport aircraft.



A400M

(€m)	2005	2004	Variation
Revenue	3,211	2,786	+15%
EBIT	212	201	+5%
Order intake	3,522	3,245	+9%
Order book	9,960	9,117	+9%

Revenue by market (as % of external revenue)



Eurocopter once again captured more than 50% of civil and parapublic sales, confirming its global leadership of this sector. The Division continued to win a large share of accessible military business, further demonstrating the competitiveness of its new-generation military helicopters. From a strategic perspective, important agreements were reached in Spain, Asia and the United States.

Revenue grew 15% to €3.2 billion (€2.8 billion in 2004), while EBIT expanded slightly to €212 million (€201 million in 2004). The revenue mix, an unfavourable US Dollar/Euro exchange rate and higher research and development expenditure, put pressure on the profit margin.

New orders totalled €3.5 billion, lifting the total order book to €9.96 billion at year end. Some 401 helicopters were ordered. By value, the orders break down into 42% for serial helicopters, 41% customer services and 17% research and development and other.

In addition to Australia and ten other countries, Belgium, New Zealand and Spain selected the NH90 multi-role helicopter for their armed forces, underlining its performance, as well as low operating and maintenance costs.

The great commercial successes obtained in various sectors such as oil and gas, search and rescue, and medical, including an order from one of the largest US air medical service companies, again demonstrated the versatility of the product range.

International expansion

The building of a new industrial site in Albacete, southern Spain, the signature of the Tiger HAD's development and production contract for Spanish and French needs, and the selection of the NH90 confirmed Spain as the third home base of Eurocopter.

Expanding order book

The Division maintained its global leadership of the civil and parapublic sector, while winning important military business and expanding its international presence.

Eurocopter

Significant progress was made abroad, especially in high-growth Asia. In China, AVIC II, the state-owned aviation company, and Eurocopter decided to expand their partnership by co-developing a new six-seven-ton technologically advanced civil and parapublic helicopter which will meet Chinese and worldwide demand in this segment. In Korea, traditionally a US market, the government entrusted Eurocopter, under the leadership of KAI, with the development of the country's first military utility helicopter.

In the United States, another key market, Eurocopter booked 122 orders and won more than 45% of the US civil market share. In addition, the US Coast Guard selected it to upgrade their Dolphin helicopter fleet. On the military side, Eurocopter joined forces with Sikorsky to tender for the LUH contract, allying the best COTS helicopter and the best logistics support solution.

Better technology and service

Eurocopter's R&T projects focus on three main axes:

- Helicopter's integration into the military digital battlefield (harder detection, protection from missiles and crash);
- Helicopter's integration into the civil air transport systems (all-weather, flight noise and vibration reduction);
- Cost effectiveness by using simulation technologies to reduce non-recurring costs, development cycles and to optimise maintenance, repair and overhaul processes, as well as the manufacturing of composite structures.

Regarding services, Eurocopter continued to invest in customer satisfaction. Mechanical repair workshops were overhauled and logistics platforms opened worldwide. Additionally, the training offer expanded with a new D-level simulator.

Outlook

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 US 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.

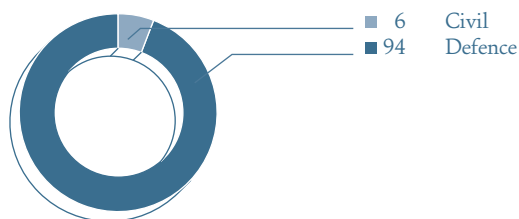
Strategically, Eurocopter's proven ability to implement international co-operation agreements in rapidly growing markets is bolstering its order book, access to scarce resources and results. Meanwhile, Eurocopter intends to protect and enhance its technological edge, the main prerequisite for sustainable development. Additionally, its ability to offer and certify customised 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.



(€m)	2005	2004	Variation
Revenue	5,636	5,385	+5%
EBIT	201	226	-11%
Order intake	6,673	8,457	-21%
Order book	18,509	17,276	+7%

Revenue by market (as % of external revenue)



Defence & Security Systems ramped up Eurofighter production and increased missile deliveries. The Division won a high number of new orders, increasing the size of the order book, with especially buoyant orders for its advanced technological solutions in missiles and missile defence, and security solutions. Management acted to improve the Division's range of capabilities and operating effectiveness.

Driven largely by Eurofighter and missile programmes, revenue increased by 5% to €5.6 billion (€5.4 billion in 2004). Thirty-four Eurofighters for Germany and Spain, some 600 Storm Shadow/Scalp long-range cruise missiles and 66 Taurus air-to-ground missiles have been delivered as at the end of 2005. EBIT is at €201 million (€226 million in 2004, due to the one-off release of a litigation provision), despite around €100 million charges for UAV activities in 2005. Hence operational profitability has clearly increased over 2004.

Order book growth

The order book rose by 7% to €18.5 billion at the year end (€17.3 billion in 2004). Substantial contracts included Spain's order for the Taurus air-to-ground missile, a Defence Electronics order for Eurofighter self-protection systems, India's order for Exocet missiles, the UK's contract award for the defence information infrastructure project, and confirmation of the border surveillance contract in Romania. As part of the Medium Extended Air Defence System (MEADS) International consortium, LFK and MBDA were awarded a part in designing and developing the tri-national MEADS system.

Moving beyond defence to security

A strong year for deliveries and new orders, while building capabilities in growth areas.

Defence & Security Systems

This large order book provides considerable certainty as to the revenue outlook for the next few years. Its backbone remains Eurofighter (Tranche 1 and 2), as well as missile orders. While the majority of orders are from European countries, the percentage of export orders is growing.

Increasing efficiency and enhancing integration

Due to a more integrated structure within Defence & Security Systems, which includes a consolidation of the sales and marketing organisation and the creation of the 'System Design Centre' as a centralised entity, Defence & Security Systems will present a more integrated approach and will focus more intensely on its national customers and markets. The organisational structures in the Business Units, 'Defence and Communications Systems', 'Defence Electronics' and 'Military Air Systems' are being streamlined.

Two acquisitions added to capabilities in growth sectors. In September, the Division acquired Nokia's Professional Mobile Radio (PMR) business, making EADS the only competitive global secure telecommunications player offering both the TETRA and TETRAPOL technologies. In December, EADS and ThyssenKrupp Technologies jointly acquired Atlas Elektronik, the naval electronics company, which will strengthen capabilities in the field of naval electronics and systems, creating a 'maritime systems and electronics house' for both surface ships and submarines.

The PMR acquisition allowed EADS to submit a joint tender with Siemens to provide the German security authorities with a national digital voice and data transmission network.

Outlook

Building on its strong platform business in defence that currently accounts for most of the Division's revenue, Defence & Security Systems is implementing a strategy of further enhancing its systems and security activities. While Eurofighter and missile contracts form the backbone of the order book, there is a strong focus on adding to capabilities in command and 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 optimise 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) were reorganised. Together with the integration of LFK into the MBDA missile business, this will further pave the way for greater efficiency.

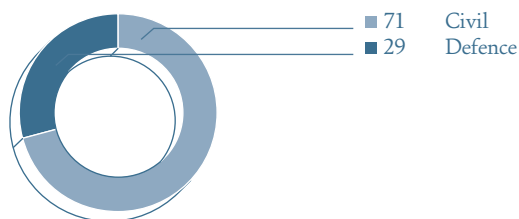
In 2006, Defence & Security Systems will further shift from development to production of missiles and other products. Additionally, Eurofighter export campaigns may strengthen the order book, and Unmanned Aerial Vehicle (UAV) product development may stimulate customer demand. Looking further ahead, security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



Storm Shadow in the anechoic chamber

(€m)	2005	2004	Variation
Revenue	2,698	2,592	+4%
EBIT	58	9	+544%
Order intake	2,322	5,658	-59%
Order book	10,931	11,311	-3%

Revenue by market (as % of external revenue)



Space confirmed its return to profitability in 2005. EBIT was substantially higher at €58 million (€9 million in 2004). The improvement reflects growth in what remains a difficult business environment, combined with the positive impact of the lower cost base following the restructuring programme.

Revenue expanded to €2.7 billion in 2005 (€2.6 billion in 2004), with EADS Space Transportation, EADS Astrium and EADS Space Services all contributing substantially to this growth. At the year end, the Division's order book stood at €10.9 billion (€11.3 billion in 2004), instilling confidence that growth would continue over the next few years.

Keen appetite for defence communications

Germany joined the UK as a customer for Space Services, selecting EADS as preferred bidder for the contract to build and operate Satcom BW, its first dedicated military satellite system. As defence ministries deploy more troops overseas, they need secure satellite communications procured through medium-term build and operate contracts that minimise capital expenditure. In December, the UK upgraded its ground-breaking Skynet 5 military communications contract to include a third satellite.

Also within defence, the French government contracted EADS Space Transportation to develop the demonstrator for the Upper Stage of a ballistic missile, and EADS Astrium for a military satellite, confirming its willingness to prepare for the future of military systems with EADS.

Commercial businesses progress

Significantly, the powerful Ariane 5 ECA ten-ton satellite launcher achieved qualification in November, allowing it to launch next-generation large satellites, and to operate more profitably. Arianespace, in which EADS Space Transportation holds a 29% interest, carried eight satellites into space and won seven new contracts. Its Starsem subsidiary launched three satellites and won two contracts.

Building upon our achievements

Revenue grew following the restructuring. The Division's services, launchers and satellites are well positioned to meet evolving needs.

Space

In a highly competitive market, EADS Astrium signed its first contract with SES ASTRA, the Luxembourg-based satellite operator, and has been awarded a contract by the Korean Aerospace and Research Institute to design and build their first multi-functional satellite COMS (Communication, Ocean and Meteorological Satellite), while three satellites were launched into commercial service. Anticipating the needs of satellite operators, in June EADS Astrium announced two new joint initiatives. Astrium is joining with Alcatel-Alenia Space to develop the Alphabus satellite, which will have the high performance required for next-generation multimedia and mobile telephony services. It also agreed with Antrix Corporation, the commercial arm of the Indian Space Research Organisation, to jointly develop and market lower performance communications satellites.

Enlarging its European footprint, in December the Division acquired Dutch Space, the largest space company in the Netherlands, and will integrate it into Space Transportation.

Institutional stability

Development of Europe's Galileo satellite navigation system remained on track, with the launch of the first of four test satellites in December. Galileo Industries, in which EADS has a 38% stake, is building three test satellites. In June, the two consortia competing to operate Galileo once it becomes operational around 2008, merged. The newly merged consortium, of which EADS is a member, is expected to receive the concession contract in 2006.

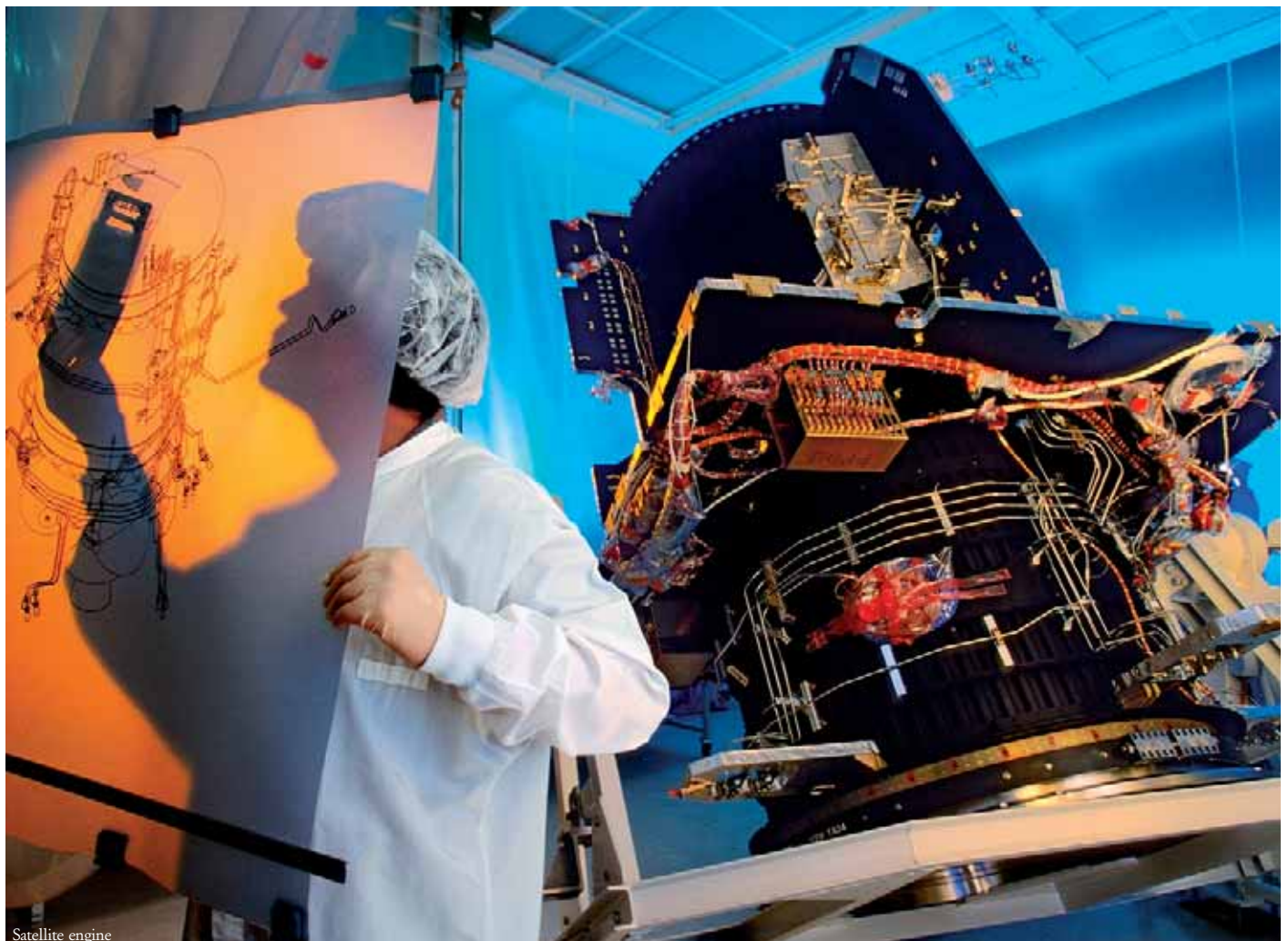
Agreement was reached on the locations for Galileo's infrastructure, with the headquarters in Toulouse and operating functions in Germany, Italy, the UK and Spain.

Galileo's satellite navigation system is expected to spawn a wide range of new applications for satellite navigation.

Outlook

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 ten-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 in 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 greater efficiencies in supply chains, will create better margins. These improvements in revenue and margins will feed through to higher EBIT.



Satellite engine

EADS is a rapidly expanding international company with global ambitions, driven by innovation and high performance standards. EADS is developing its people to drive the Group towards its goals in a demanding global business environment.

Global ambitions

In line with EADS' ambitions to have a more global presence, Human Resources (HR) management has been anticipating how to manage its expanding global workforce and benefit from its increasing diversity.

With several Divisions expanding their activities in China, a joint HR project was launched to establish a common EADS HR policy for China. Through the joint HR task force, the ECHO project, a common HR policy and practical handbook was created for the use of the HR professionals of the Divisions and Business Units expanding into the country. Additionally, a number of training programmes were organised, including an Expand Management Development programme visiting Shanghai. Action Learning Expeditions were organised to China and India for EADS top managers.

Employer image

In 2005, EADS' appeal as a place to work was recognised by a number of independent surveys. According to a survey carried out by Universum, engineering students ranked EADS as the fifth most attractive place to work in Europe (first in France and sixth in Germany). Reflecting the commitment of EADS to promoting gender diversity in engineering careers, a survey has shown that among German female engineers EADS has been improving its appeal to become the ninth best place to work - up from 21st in 2004.

Developing our people

As a leading company in a high-technology industry, EADS employs some of the most talented individuals in its sector and is ranked one of Europe's most attractive employers.

Human Resources

Human resource evolution

In 2005, the number of employees increased to 113,210 compared with 110,662 in 2004. Airbus's workforce grew from 51,959 to 54,721. EADS has been increasing its engineering and manufacturing resources to cope with the increasing development workload of new programmes such as the A350, and due to important programmes coming in to the delivery phase, such as the A380, NH90 and Tiger helicopters.

People development

Several new innovative training schemes were launched during the year, intended to develop EADS employees' full potential.

In addition to its ongoing programmes, the Corporate Business Academy has launched the Summer Academy, a customised training and learning programme, in which staff use innovative methods for learning. A new programme of strategic and personal development for senior executives, named ACHIEVE, has also been launched.

Importantly, EADS is preparing itself for changing demographics in society and its impact on working life. EADS is taking specific action to improve career opportunities for senior employees in France. This involves a formal career assessment when employees reach 45, combined with further training. The aim is to ensure that the skills and motivation of older employees last longer in their working lives.

Employee Share Ownership Plan

Employees participated in the achievements of the Group in large numbers. More than 10,000 employees purchased almost two million shares through the Employee Share Ownership Plan (ESOP), representing approximately 0.25% of the share capital. EADS employees have bought 21.52 million shares during the last six years. With EADS' share price evolution during the year, employees have profited from their collective efforts to develop EADS. To make ESOP more attractive to EADS UK employees also, a new tax savings plan called the Stock Incentive Plan (SIP) has been launched.

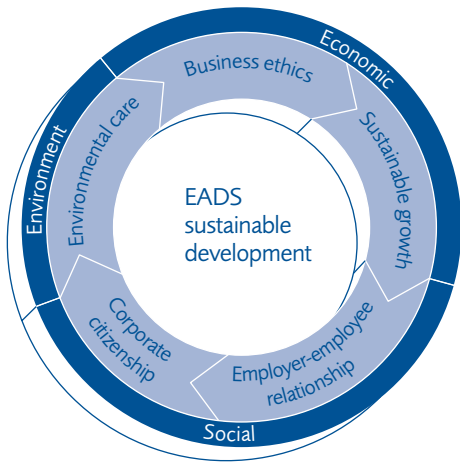
HR efficiency

EADS has launched a global e-HR programme covering all Divisions. This programme is aiming to review and simplify current processes, implement common e-HR platforms, based on common SAP software systems, and to establish in the medium term, common global shared services for pay and time. This will be a major driver in HR efficiency in EADS in the coming years. Additionally, common tools have been established for internal reporting and executive management.

In summary, EADS HR is responding to the challenges of an increasingly global organisation and a modern workforce. EADS employs some of the world's most talented engineers and managers. In order to achieve its ambitions, it must continue to attract the best and to offer opportunities for learning and career development.



Developing a model for sustainable growth



In 2005, EADS put a policy framework in place that will allow it to progress towards its goal of setting the standard for Corporate Social Responsibility (CSR) in the aerospace and defence sector. The Company formalised CSR policies to be applied consistently across EADS to achieve sustainable development by balancing economic performance with environmental and social considerations across the Group. Through Key Performance Indicators, performance and improvement can be monitored internally and reported to external audiences.

Additionally, EADS' Code of Ethics was updated to reflect both the Group's status as a market leader and current best practice with regard to business ethics.

Highlights 2005

In 2005 EADS made progress in further implementing its CSR policy in each of the policy areas.

Economic:

Business Ethics is a major focus for EADS to ensure ethical business practices and compliance with all relevant legislation in the countries where it operates. During 2005, the Group revised its foreign trade rules to increase awareness of best practice and to reinforce protection against corruption. The revisions took into account valuable input from reputable international bodies with which EADS has developed regular contacts. Through this active networking, and continued exchange with peer companies, EADS supports the industry's initiative to set and promote integrity standards in aerospace and defence.

Progressing towards setting the standard

EADS is putting a framework in place that will allow it to realise and measure progress in Corporate Social Responsibility.

Corporate Social Responsibility

EADS' long-term Sustainable Growth relies on the Group's ability to deliver products and services that perform. This requires a continuous focus on customer satisfaction and product quality, permanent innovation and expert management of suppliers. To this end, the Quality and Operational Excellence Programme (QOEP) was increasingly deployed throughout Business Units. To increase the potential for innovation, the Corporate Research Centre signed new partnerships with academic partners and launched a think tank for a new type of visionary aviation research.

Environment:

Environmental Care is of particular interest to EADS because it sells products with long lifecycles. The Group prioritises minimising the environmental impact of its activities, ensuring that each Business Unit complies with the laws and regulations of each country in which it operates. In 2005, EADS formed a dedicated network to meet the challenges of the EU Restriction of Hazardous Substances (RoHS) directive, which limits the use of specific hazardous materials. Other initiatives have been deployed across the Group. For example, Airbus will soon achieve the full ISO 14001 certification for all its European sites. Across EADS, nine more sites were covered by an ISO certification or an EMAS registration at the end of 2005 compared with end 2004 (+45%).

Social:

In the area of Employer-Employee Relationship, the Group emphasises its determination to respect social rights wherever it operates. In June, EADS and the European Works Council, in association with the European and the International Metalworkers' Federation, signed an international agreement providing a framework for respect of social rights wherever the Group operates. This reaffirms their collective belief in CSR and the will to respect common principles and standards laid down by international conventions and guidelines while growing EADS' economic success worldwide. EADS also furthered its long-term plan for bringing women into aerospace, exceeding its annual 20% target for female recruits by 0.5%.

Regarding Corporate Citizenship, EADS believes it is important to contribute to the cultural, educational and social well-being of the countries where it operates. This involves a wide range of activities, but in 2005 the disaster relief efforts following the Asian tsunami, Pakistani earthquake and US hurricane were most notable. In Asia, an Airbus Beluga jetliner flew in relief supplies, several Eurocopter helicopters flew rescue missions and a mobile rescue station was established on the coast of Indonesia. In Pakistan, the Group flew in 95 tons of relief supplies following the earthquake and offered its help in evacuating the injured by air. Finally, in the United States, EADS flew in 23 tons of relief supplies, as well as helicopter rescue missions.

'Defence industry operates in a strictly controlled environment'

An interview with John Harrison, General Counsel, Defence & Security Systems

Can EADS be socially responsible while owning a defence business?

I think the very concept of participating in the defence industry is in itself socially responsible. Why? Because we are not only a player in the global economy but also support governments and international organisations such as NATO which ultimately defend and underpin our freedoms and all of the advantages of a free society that we currently enjoy. On a less philosophical level, the defence industry operates in a strictly controlled legal and regulatory environment.

How do you ensure that export controls are respected?

To make sure that we comply with the vast array of export control legislation is a complex business and one of my jobs is to break down that complexity. We have to identify where a product is affected by a legal provision, which is a minimum requirement for us, completed by application of company rules which often go beyond legislation. The export control people are technically astute and work at our sites, not in ivory towers.

We take the advice of experts to tell us whether parts can be used for both civil and military purposes, so that we can ensure we comply with export restrictions.

Not only do we follow the law but also we have discussions with relevant authorities. It is difficult to do more.

How do you guard against corruption?

As a company we do not tolerate bribery. We have detailed internal policies and procedures which deal precisely with this point, offering guidance on hospitality for example. But just having rules is not enough. We enforce them rigorously. Each EADS employee and partner is responsible for respecting the rules. Additionally, we have a department that oversees compliance and advises employees as to what is permissible.



Corporate Social Responsibility



For more detailed information please refer to: **Business, Legal and Corporate Responsibility 2005 (3)** (available on request)

Values

EADS' updated set of values was drawn up in 2005.

Reliability We deliver on our promises to customers, employees and shareholders. We recognise our responsibilities towards all our stakeholders. We manage our risks and are accountable for what we do.

Innovation We share a common creative spirit and an enthusiasm for innovation. We develop the most advanced projects with a pioneering spirit. We value entrepreneurship and courage as a source of breakthrough ideas and future success.

Excellence We set ambitious targets and seek continuous improvement. We are committed to achieving best-in-class performance and profitability. We create value for our shareholders and all other stakeholders.

Customer satisfaction We are market driven. We listen to our customers in order to provide them with the best solutions which anticipate and meet their needs. Customer satisfaction is the key for our long-term success.

Honesty We act in accordance with our values and commitments. We are committed to complying with all applicable laws and regulations as well as respecting high standards of honesty and integrity. We provide transparent information to our stakeholders.

Diversity We believe our people are key drivers for our future success. We are an international company with a shared culture of diversity and openness. We value both individual contribution and teamwork.

'Diversity adds breadth to our skills'

An interview with Thierry Baril,
Head of Human Resources, Eurocopter

What is your policy towards diversity?

We believe absolutely in diversity for both ethical and pragmatic reasons. Eurocopter is an increasingly global company at a time when all the high-technology companies are competing for the best people. Embracing diversity in terms of gender, nationality, background and so on gives us the greatest choice of people and allows us to recruit the best.

Diversity also adds breadth to our skills. If we are in India we need Indian people in order to understand the country and the way of doing business. Recruiting people from the automotive industry teaches us about series production. We want 10% of our 2006 engineering recruits to have lived or studied outside France, Germany or Spain.



What CSR challenges arise from being the EADS Division with the most international presence?

To put this into context, we have 11,000 employees in France, Germany and Spain and another 2,000 spread across our 15 international subsidiaries. In 2004, we started to lay foundations for a more global implementation of HR policies. With our global internal HR database we are now able to monitor our people worldwide and to ensure more equal opportunities. We also brought people from our subsidiaries to Europe for training for the first time, for example at the EADS Corporate Business Academy, and offered customised local career development opportunities.

What difference has the International Framework Agreement agreed with the European Works Council made?

We have had subsidiaries outside Europe for 25 to 30 years and have always maintained European social standards across these operations. The International Framework Agreement reinforces our standards, but we have always been a respected and attractive employer. Between 2002 and 2005 we doubled the headcount outside Europe but had no difficulty recruiting highly valued people.

EADS Code of Ethics

In light of its establishment as a market leader in many of its businesses and the evolving legal environment relating to business ethics, EADS updated its Code of Ethics (Code) in order to reflect practices recommended by various codes and laws, and to align with best practice.

The enhanced Code sets out in one single, comprehensive document the EADS business guidelines relating to the Group's ethical standards. The Code serves as a core EADS business guideline in an architecture of documents, and also refers to detailed policies as laid out in the EADS Corporate Handbook, and can be complemented with policies and processes specific to Divisions or Business Units. It is based on EADS' underlying values and is fully in line with international recognised standards as laid out in charters, declarations or guidelines, such as the Universal Declaration of Human Rights.

The Code covers the full scope of EADS' CSR policies, addressing in five chapters the principal lines of ethical behaviour. In this way the Code gives guidance to all employees about appropriate conduct in their professional environment.

EADS is committed to implementing the principles described in the Code, in particular through entrusting an Ethics Committee, appointed by the EADS Board, with compliance responsibility in ethics matters.

Outlook

In 2006, EADS will further deploy and monitor its CSR policies through a network co-ordinated at corporate level and including representatives from the Divisions/Business Units. The Group will also work towards further enhancement of reporting CSR parameters.

Another priority will be to further address the topic 'business ethics', both internally and externally. Internally, the Ethics Code will be launched through a comprehensive information campaign to raise employee awareness about the importance of ethical business conduct, linking it to underlying EADS values. Furthermore, foreign trade training and networking activities will be used to disseminate an 'awareness' culture.

Externally, EADS is pursuing a business dialogue within the European aerospace and defence industry which aims to launch a platform of principles setting high standards, exchanging best practices, promoting training and compliance programmes, and, more generally, generating common European industry positions on ethics and anti-corruption.

As EADS builds its industrial presence across the world, a particular focus will be placed on promoting CSR policies outside home markets. The procurement teams are starting to be sensitised to the CSR challenges associated with increasingly global sourcing.

EADS will continue enhancing its CSR policy and practices, creating long-term value by continuously applying the Group vision of achieving economic performance, while taking into consideration all stakeholders' interests and caring for the environment.

'We want to integrate environmental matters into our culture'

An interview with Philippe de Saint Aulaire,
Head of Environmental Affairs, Airbus

As the largest commercial aircraft, is the A380 also the largest polluter?

When the A380 enters into service, it will be the most efficient aircraft regarding CO₂ emissions. Additionally, it consumes a little less than three litres of fuel per person per 100 kilometres. By comparison, the average car in Europe consumes more than five litres per person given average load factors.

In the last 40 years, aviation fuel consumption has fallen 50%. Furthermore, the Advisory Council for Aeronautics Research in Europe has set a very challenging target of reducing consumption another 50% by 2020. We are researching how to do this, questioning the design of the aircraft and how it is operated.

What do you do with aircraft when they become obsolete?

The first Airbus aircraft are reaching the end of their lives and we believe that our customers will soon be required to dismantle them. With the so-called PAMELA (Process for Advanced Management of End of Life of Aircraft) project we are preparing to store and dismantle civil aircraft in environmentally friendly, safe and economic conditions.



What is the significance of Airbus's aim of achieving ISO 14001 certification for sites and products by the end of 2006?

We want to integrate environmental matters into our culture. The ISO 14001 environmental management system will help ensure that environmental aspects are considered in every part of Airbus and will enable us to measure our progress.

Can the environment be a source of competitive advantage?

As stakeholder pressure grows, the environment is becoming a real issue for airlines. It is also conceivable that passengers may in future select their flights depending on the environmental performance of the aircraft. So, yes, environment is on the way to becoming a significant competitive issue.

Organisational structure

as of 31st December 2005

Board of Directors

<p>Chairmen Manfred Bischoff Arnaud Lagardère</p>
<p>Thomas Enders Noël Forgeard Hans Peter Ring Jean-Paul Gut Juan Manuel Eguiagaray Louis Gallois Rüdiger Grube François David Michael Rogowski</p>

Chief Executive Officers

<p>CEOs Thomas Enders Noël Forgeard</p>

Chief Operating Officers

<p>Finance Hans Peter Ring</p>
<p>Marketing, Strategy and Global Development Jean-Paul Gut</p>

Group Functions

<p>EADS North America Ralph D. Crosby Jr.</p>
<p>Human Resources Jussi Itävuori</p>
<p>Corporate Secretary Laurence Dors</p>
<p>Corporate Communications Christian Poppe</p>
<p>Legal Affairs Diane de Saint Victor</p>
<p>Corporate Quality Bill Black</p>
<p>Political Affairs France: Denis Verret Germany: Christoph Hoppe Spain: Enrique Barrientos</p>

■ Executive Committee Member

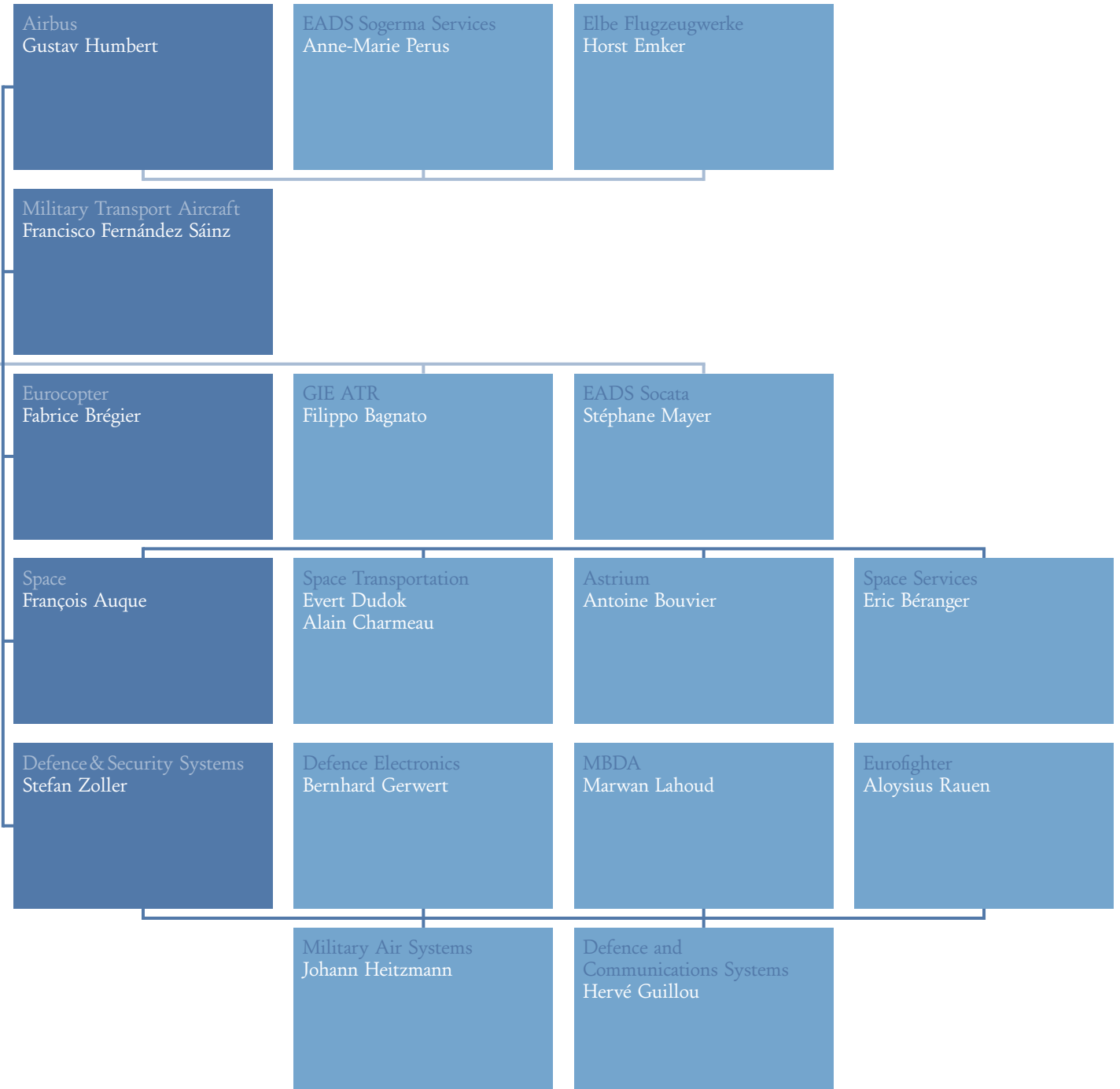
In April 2006 EADS appointed Mr Jean J. Botti as Chief Technical Officer and Member of the Executive Committee with effect from 1st May 2006

The Board actively shapes the Group's mission and strategic priorities, which are implemented under the leadership of the Chief Executive Officers (CEOs), who provide the impetus for major operational initiatives. Group Functions and the Divisions operate under the leadership of the CEOs.

The five Divisions – Airbus, Military Transport Aircraft, Eurocopter, Defence & Security Systems, and Space – serve the specific needs of their respective customers while the Group Functions enhance the Company offering through information exchange, technology sharing and working practice synergies. This allows for maximum generation of value.

Divisions

Operating Companies



Executive Committee



Thomas Enders
Chief Executive Officer

Mr Enders joined MBB/Dasa AG in 1991. After several years in the company's marketing sector, he became Corporate Secretary of Dasa AG in 1995. From 1996 he was in charge of Corporate Strategy & Technology and from 2000, he was the Head of Defence & Security Systems Division. In June 2005, he was appointed Chief Executive Officer of EADS. Mr Enders holds degrees from the University of Bonn and UCLA, California.



Noël Forgeard
Chief Executive Officer

Mr Forgeard joined Matra in 1987 as Senior Vice President of the Defence and Space activities. In 1992, he became Managing Director of Lagardère and Chief Executive Officer of Matra HT. He joined Airbus Industrie in 1998 and became President and Chief Executive Officer of Airbus in 2001. In 2005, he was appointed Chief Executive Officer of EADS. Mr Forgeard graduated from the Ecole Polytechnique and the Ecole des Mines.



Fabrice Brégier
Head of Eurocopter Division

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



Gustav Humbert
Head of Airbus Division

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



Francisco Fernández Sáinz
Head of Military Transport Aircraft Division

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



Ralph D. Crosby Jr.
Head of EADS North America

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

The Chief Executive Officers (CEOs) are supported in their operational tasks by two Chief Operating Officers (COOs) and an Executive Committee.



Hans Peter Ring
Chief Operating Officer for Finance

Mr Ring began his career at MBB in 1977 and was appointed Head of Controlling of the company's Missiles business in 1987. From 1992, he was Chief Financial Officer and member of the Board of Dornier Luftfahrt. In 1996, he was appointed Senior Vice President of Controlling of Dasa and subsequently of EADS. Mr Ring was appointed Chief Financial Officer of EADS in 2002. Mr Ring holds a degree in business administration.



Jean-Paul Gut
Chief Operating Officer for Marketing, Strategy and Global Development
Since 1983, Mr Gut has held various executive positions in the field of export and international operations for Matra Défense and the Lagardère Group. In 1998, Mr Gut integrated the Lagardère Group Management Board and was responsible for International Operations and the High Technology sector. In 2000, he was appointed Head of EADS International and in 2005, EADS Chief Operating Officer (COO). He graduated from the Institut d'Etudes Politiques of Paris.



Stefan Zoller
Head of Defence & Security Systems Division

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



François Auque
Head of Space Division

Mr Auque joined Aerospatiale as Chief Financial Officer in 1991, after a career with the Suez Group and the French Cour des Comptes. He held various top management posts within Aerospatiale Matra. Since 2000, he has been Chief Executive Officer of EADS Space Division. Mr Auque graduated from the Ecole des Hautes Etudes Commerciales, from the Ecole Nationale d'Administration, and from the Institut d'Etudes Politiques of Paris.



Jussi Itävuori
Head of Human Resources

Mr Itävuori joined EADS in September 2001. Previously, he worked for KONE Corporation since 1982 and was appointed in 1989 as Head of Human Resources and member of the Executive Committee of KONE Elevators. In 1995, he was appointed member of the Executive Committee and Head of Human Resources of KONE Corporation. Mr Itävuori graduated from the Vaasa School of Economics, Finland and served in the Airforce as a pilot.

In April 2006 EADS appointed Mr Jean J. Botti as Chief Technical Officer and Member of the Executive Committee with effect from 1st May 2006

Corporate Governance



For more detailed information please refer to: Corporate Governance section of www.eads.com or Financial Statements and Corporate Governance 2005 (2)

In 2005, the EADS Board continued to uphold the driving principle of maximising shareholder value and complying with applicable laws and corporate governance principles in the countries relevant to the Company, while also sharpening its focus on corporate governance best practice.

In the course of taking care of the Company's affairs, the Board met seven times and was regularly informed of developments through business reports from the Chief Executive Officers, including rolling forecasts as well as strategic and operational plans. The average attendance rate at such meetings was 91%. The Board discussed topics and authorised operations including EADS strategy; reorganisation topics (such as the reshaping of EADS' divisional structure and headquarter organisation); and 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 EC175 helicopter with China and the review of Sogerma future strategy).

The Board also approved operational plans, budgets, remuneration (including a share option plan and an employee share option plan) and the Group's financial results and forecasts, as well as financial optimisations and the process of risk management and internal controls. Additionally, it dealt with topics regarding personnel and human resources, such as management qualification as well as attracting, retaining and developing high potential executives in order to ensure the future quality of EADS' management and the multinational leadership structure. At the 11th May 2005 meeting, Manfred Bischoff and Arnaud Lagardère were re-elected as Chairmen and the two Board Committees were reconstituted with the same composition as previously. At the 25th June 2005 meeting, the Board appointed the following to the Executive Committee: the EADS Chief Executive Officers, the two Chief Operating Officers, the Chief Executive Officer of Airbus, the head of Defence & Security Systems and the head of Eurocopter. It also confirmed appointment of the other Executive Committee members.

Shaping the Group's mission and strategy
Effectiveness of governance and
management are a key success factor.

The changes to EADS' corporate governance implemented in 2004 to reflect best practice in jurisdictions relevant to EADS affected a number of matters in 2005, including the new Board members' introduction packages following their appointment at the Annual General Meeting.

The activities of the Audit Committee and Remuneration and Nomination Committee during 2005 reflected various changes to incorporate best practice in recent years, especially the adopted new internal Directors' guidelines (the 'Directors' Guidelines') at the Board meeting of 10th December 2004. The Audit Committee met three times during 2005 and had one written consultation. It reviewed the 2004 results as well as the first half-year 2005 results. The Remuneration and Nomination Committee met five times during 2005 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.

For all Board members, remuneration contains a fixed and a variable part. Part of the compensation paid to members of the Board is based on generation of cash and EBIT, either at Group or divisional level, as well as on their individual performance. The variable proportion generally represents at least half of total compensation.

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

Members of the Board of Directors

Manfred Bischoff

Chairman of EADS

DaimlerChrysler Delegate for Aerospace

Arnaud Lagardère

Chairman of EADS

General Partner and Chief Executive Officer of Lagardère

Thomas Enders

Chief Executive Officer of EADS

President of the German Association of the

Aerospace Industries-BDLI

Noël Forgeard

Chief Executive Officer of EADS

Member of the Board of Directors of Arcelor

Hans Peter Ring

Chief Operating Officer for Finance of EADS

Member of the Supervisory Board and Shareholder Committee of M+W Zander - D.I.B Facility Management GmbH

Jean-Paul Gut

Chief Operating Officer for Marketing, Strategy and

Global Development of EADS

Member of the Board of Directors of Arjil Commandité-Arco

Juan Manuel Eguiagaray Ucelay

Director of the Service of Studies of the Fundacion Alternativas

Louis Gallois

President of SNCF

Rüdiger Grube

Member of the Management Board of DaimlerChrysler

François David

Chairman and Chief Executive Officer of Coface

Michael Rogowski

Chairman of the Supervisory Board of J.M. Voith AG

Glossary

Air-Ground surveillance

A NATO ground surveillance system for combat monitoring

ARBS

Aerial Refuelling Boom System with fly-by-wire controls, including an automatic load alleviation system, giving a larger refuelling envelope and improved controllability. The ARBS will place EADS in the forefront of air refuelling technology

ASK

Available Seat Kilometres

ATI

Advanced Technology Initiative – a Group-wide drive to increase efficiency in innovation, research and technology

ATV

The Automated Transfer Vehicle (ATV) is a multipurpose support spacecraft to carry supplies and fuel to the International Space Station (ISS)

AVL

Airbus Visual Line System

CBA

The EADS Corporate Business Academy

C4ISR

Command, Control, Communication, Computers, Surveillance and Intelligence Systems for defence forces

Chapter 11 bankruptcy

Chapter 11 of the US Bankruptcy Code protects a bankrupt company from its creditors while it reorganises its businesses with a view to becoming profitable again

Corporate Governance

The control and monitoring of a company to ensure that management acts in the interests of stakeholders, no undue risks are taken and relevant legislation is complied with

COTS

Commercial off the shelf

CRC

EADS Corporate Research Centre

CSR

Corporate Social Responsibility – the responsibility of a company towards its employees, the environment, its customers and the wider community

Deepwater

A comprehensive US Coast Guard modernisation programme for acquiring new aircraft and surveillance systems

Dol

Declaration of Intent

EBIT

Earnings Before Interest and Taxes – EADS uses EBIT pre-goodwill impairment and exceptionals as a key indicator of its economic performance

EGAS

European Guaranteed Access to Space

ESA

European Space Agency

ESOP

Employee Share Ownership Programme

EuroMALE

A versatile, long-range Unmanned Aerial Vehicle produced by EADS

FAA

The US Federal Aviation Authority

FITS

Fully Integrated Technical System

Fleet commonality

A feature of the Airbus family, allowing airlines to operate type variants of different sizes, while minimising the need for pilot re-training and re-certification

Fly-by-wire

An aircraft control system relying on electronics rather than mechanical linkages

FSTA

The UK Future Strategic Tanker Aircraft programme

Galileo

The European satellite navigation system currently being developed

GBAD

The new UK Ground Based Air Defence System designed to improve the country's air defence systems

GDP

Gross Domestic Product – a measure of an economy's output

Global security

State security designed for border security, crisis management and large event protection

HAD

Hélicoptère d'Appui Destruction (Support Suppression Helicopter)

Hedge

A way of insuring against adverse foreign exchange rate fluctuations

Hub

A major, strategically-located airport from which 'spokes' radiate carrying regional traffic

IATA International Air Traffic Association	MOU Memorandum of Understanding	PPP Public Private Partnership	TETRA Terrestrial Trunked Radio, one of the most important modern digital radio standards and in use throughout the world in the areas of public transport and safety. It also has widespread industrial applications. The TETRA system provides secure, truly seamless radio communication services for the users
ICAO International Civil Aviation Organisation – the ‘United Nations’ agency for international civil aviation	MRO Maintenance, Repair and Overhaul – referring to the aviation industry	PRM Programme Risk Management	
ISS The International Space Station	MRTT Multi-Role Tanker Transport aircraft	R&D Research and development – all activities related to the evolution of new products and services	
JCA US Army and US Air Force Joint Cargo Aircraft	NASA National Aeronautics and Space Administration – the US space agency	R&T Research and technology – all activities in the field of research and generic technologies not directly attributable to products, and designed to maintain or expand knowledge or the technological base	Triple III Improvement, Internationalisation, Innovation, are the driving principles of EADS’ growth strategy: Continuous improvements are key to ensure fulfilment of expectations. Internationalisation will make EADS part of the most attractive markets. Innovation creates competitive advantage for EADS’ customers
KHP Programme to replace the ageing fleet of US transport and liaison helicopters operated by the Korean army	NATO North Atlantic Treaty Organisation	RPK Revenue Passenger Kilometres	
KPI Key Performance Indicator – a measure of corporate performance in a particular area	Network centric Information superiority is becoming ever more important in defence. ‘Network centric’ systems allow armed forces to tackle new tasks in reconnaissance and surveillance, sensor technology, and command and communications	Single-aisle aircraft An aircraft with one aisle. At Airbus, single-aisle is used for the A320 Family	
LSI Large System Integration	OCCAR Organisation Conjointe de Coopération en Matière d’Armement (Organisation for Joint Armament Cooperation)	SIP Stock Incentive Plan	UAV Unmanned Aerial Vehicle
LUH US Army programme for Light Utility Helicopters	PFI The Private Finance Initiative is a project where the public sector procures services from the private sector. The public sector defines the output it desires and the private sector then derives the solution to provide the required services	SOP Stock Option Plan	UCAV Unmanned Combat Aerial Vehicle
MALE Medium Altitude Long Endurance UAV		SRTC Singapore Research & Technology Centre, extension of the EADS research organisation to manage and broker projects in close co-operation with Singaporean scientific institutions	
MEADS Medium Extended Air Defense System – a ground-based air defence system			

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Financial calendar 2006

Full year 2005 results release:
8th March 2006

North America Investor Forum:
13th March 2006
New York, USA

Annual General Meeting:
4th May 2006,
Amsterdam, The Netherlands

First Quarter 2006 results release:
16th May 2006

Shareholders' Information meeting:
3rd July 2006,
Paris, France

First Half 2006 results release:
27th July 2006

Global Investor Forum:
21st and 22nd September 2006,
Hamburg, Germany

Third Quarter 2006 results release:
8th November 2006

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The complete EADS Annual Report Suite
2005 consists of:



**Annual Review
2005 (1)**



**Financial Statements and
Corporate Governance
2005 (2)**



**Business, Legal and
Corporate Responsibility
2005 (3)**
(available on request)



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Cover image
Airbus A380

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