

# **Year 2005 Report**

## **Unaudited Condensed Consolidated Financial Information of EADS N.V. for the year 2005**

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**Unaudited Condensed IFRS Consolidated Income Statements**

	January 1 - December 31, 2005		January 1 - December 31, 2004		Deviation	
	M €	%	M €	%	M €	%
<b>Revenues</b>	34,206	100	31,761	100	2,445	8
Cost of sales *)	-27,530	-80	-25,522	-80	-2,008	8
<b>Gross margin</b>	<b>6,676</b>	<b>20</b>	<b>6,239</b>	<b>20</b>	<b>437</b>	<b>7</b>
Selling, administrative & other expenses	-2,336	-7	-2,296	-7	-40	2
Research and development expenses	-2,075	-6	-2,126	-7	51	-2
Other income	222	0	314	1	-92	-29
Share of profit from associates and other income from investments	225	1	84	0	141	168
<b>Profit before finance costs and income taxes</b>	<b>2,712</b>	<b>8</b>	<b>2,215</b>	<b>7</b>	<b>497</b>	<b>22</b>
Finance costs	-177	-1	-330	-1	153	-46
Income taxes	-825	-2	-664	-2	-161	24
<b>Profit for the period</b>	<b>1,710</b>	<b>5</b>	<b>1,221</b>	<b>4</b>	<b>489</b>	<b>40</b>
<b>Attributable to:</b>						
Equity holders of the parent ( <b>Net income</b> ) *)	<b>1,676</b>	<b>5</b>	<b>1,203</b>	<b>4</b>	<b>473</b>	<b>39</b>
Minority interests	34	0	18	0	16	89
<b>Earnings per share</b>	€		€		€	
Basic *)	2.11		1.50		0.61	
Diluted *)	2.09		1.50		0.59	

\*) For retrospective adjustments concerning 2004 please refer to Note 2 "Accounting policies".

**Unaudited Condensed IFRS Consolidated Balance Sheets**

	December 31, 2005		December 31, 2004		Deviation	
	M €	%	M €	%	M €	%
<b>Non-current assets</b>						
Intangible assets *)	11,052	16	10,549	15	503	5
Property, Plant and Equipment *)	13,951	19	12,956	19	995	8
Investment in associates	1,908	3	1,738	3	170	10
Other investments and long-term financial assets	1,938	3	2,110	3	-172	-8
Deferred tax assets *)	2,557	4	2,548	4	9	0
Non-current securities	1,011	1	466	1	545	117
Non-current other assets *)	3,610	5	7,096	10	-3,486	-49
	<b>36,027</b>	<b>51</b>	<b>37,463</b>	<b>55</b>	<b>-1,436</b>	<b>-4</b>
<b>Current assets</b>						
Inventories	15,425	22	12,334	18	3,091	25
Trade receivables	4,802	7	4,406	6	396	9
Other current assets *)	3,675	5	5,242	8	-1,567	-30
Current securities	29	0	0	0	29	
Cash and cash equivalents	9,546	14	8,718	13	828	9
	<b>33,477</b>	<b>48</b>	<b>30,700</b>	<b>45</b>	<b>2,777</b>	<b>9</b>
<b>Non-current assets classified as held for sale</b>	<b>881</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>881</b>	
<b>Total assets</b>	<b>70,385</b>	<b>100</b>	<b>68,163</b>	<b>100</b>	<b>2,222</b>	<b>3</b>
<b>Total equity</b>						
Capital Stock	818	1	810	1	8	1
Reserves *)	9,371	13	7,899	12	1,472	19
Accumulated other comprehensive income	3,982	6	7,678	11	-3,696	-48
Treasury shares	-445	0	-177	0	-268	151
	<b>13,726</b>	<b>20</b>	<b>16,210</b>	<b>24</b>	<b>-2,484</b>	<b>-15</b>
Minority interests *)	176	0	144	0	32	22
	<b>13,902</b>	<b>20</b>	<b>16,354</b>	<b>24</b>	<b>-2,452</b>	<b>-15</b>
<b>Non-current liabilities</b>						
Non-current provisions *)	6,879	10	6,074	9	805	13
Long-term financial liabilities *)	4,189	6	4,405	6	-216	-5
Deferred tax liabilities	2,376	3	4,134	6	-1,758	-43
Other non-current liabilities	11,295	16	10,267	15	1,028	10
	<b>24,739</b>	<b>35</b>	<b>24,880</b>	<b>36</b>	<b>-141</b>	<b>-1</b>
<b>Current liabilities</b>						
Current provisions	2,727	4	2,350	3	377	16
Short-term financial liabilities *)	908	1	818	1	90	11
Liability for puttable instruments *)	3,500	5	3,500	5	0	0
Trade liabilities	6,634	10	5,860	9	774	13
Current tax liabilities	174	0	178	0	-4	-2
Other current liabilities	17,739	25	14,223	22	3,516	25
	<b>31,682</b>	<b>45</b>	<b>26,929</b>	<b>40</b>	<b>4,753</b>	<b>18</b>
<b>Liabilities directly associated with non-current assets held for sale</b>	<b>62</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>62</b>	
<b>Total equity and liabilities</b>	<b>70,385</b>	<b>100</b>	<b>68,163</b>	<b>100</b>	<b>2,222</b>	<b>3</b>

\*) For retrospective adjustments as of December 31<sup>st</sup>, 2004 please refer to Note 2 "Accounting policies".

**Unaudited Condensed IFRS Consolidated Cash Flow Statements**

	January 1 - December 31, 2005	January 1 - December 31, 2004
	M €	M €
Profit for the period attributable to equity holders of the parent (Net income) *)	<b>1,676</b>	<b>1,203</b>
Profit attributable to minority interests *)	34	18
<i>Adjustments to reconcile profit for the period (net income) to cash provided by operating activities</i>		
Depreciation and amortization	1,653	1,621
Valuation adjustments and CTA release *)	261	-188
Deferred tax expense	386	537
Results of disposal of non-current assets	-170	-8
Results of companies accounted for by the equity method	-210	-88
Change in current and non-current provisions and current tax assets / liabilities	238	-237
Change in other operating assets and liabilities	1,239	2,155
<b>Cash provided by operating activities</b>	<b>5,107</b>	<b>5,013</b>
- Purchase of intangible assets, PPE	-2,818	-3,017
- Proceeds from disposals of intangible assets, PPE	101	36
- Acquisitions of subsidiaries (net of cash)	-131	-100
- Proceeds from disposals of subsidiaries (net of cash)	89	0
- Payments for investments in associates and other investments and long-term financial assets	-659	-482
- Proceeds from disposals of associates and other investments and long-term financial assets	485	492
- Dividends paid by companies valued at equity	36	36
- Increase in equipment of leased assets	-40	-656
- Proceeds from disposals of leased assets	256	74
- Increase in finance lease receivables	-219	-261
- Decrease in finance lease receivables	85	110
Change of securities	-559	10
Change in cash from changes in consolidation	12	9
<b>Cash (used for) investing activities</b>	<b>-3,362</b>	<b>-3,749</b>
Change in long-term and short-term financial liabilities	-344	474
Cash distribution to EADS N.V. shareholders	-396	-320
Payments related to liability for puttable instruments	-93	-64
Capital increase	187	43
Purchase of treasury shares	-288	-81
<b>Cash (used for) provided by financing activities</b>	<b>-934</b>	<b>52</b>
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents	17	-2
<b>Net increase in cash and cash equivalents</b>	<b>828</b>	<b>1,314</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>8,718</b>	<b>7,404</b>
<b>Cash and cash equivalents at end of period</b>	<b>9,546</b>	<b>8,718</b>

\*) For retrospective adjustments concerning 2004 please refer to Note 2 "Accounting policies".

As of December 31<sup>st</sup>, 2005, EADS' cash position (stated as cash and cash equivalents in the unaudited consolidated cash flow statements) includes 1,202 M € (687 M € as of December 31<sup>st</sup>, 2004) representing the amount Airbus has deposited at BAE Systems. Additionally included are 579 M € (602 M € as of December 31<sup>st</sup>, 2004), which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAe Systems and Finmeccanica. These funds are available for EADS upon demand.

## Unaudited Condensed IFRS Consolidated Statements of Changes in equity attributable to equity holders of the parent and minority interests

in M €	Equity attributable to equity holders of the parent	Minority interests
<b>Balance at January 1, 2004</b>	<b>16,149</b>	<b>2,179</b>
Retrospective adjustments *)	-1,000	-2,053
<b>Balance at January 1, 2004, adjusted</b>	<b>15,149</b>	<b>126</b>
Capital Increase	43	
Profit for the period *)	1,203	18
Cash distribution to shareholders	-320	
OCI	204	
Purchases of treasury shares	-81	
Others	12	
<b>Balance at December 31, 2004</b>	<b>16,210</b>	<b>144</b>
Capital Increase	187	
Profit for the period	1,676	34
Cash distribution to shareholders	-396	
OCI	-3,696	-2
Purchases of treasury shares	-288	
Others	33	
<b>Balance at December 31, 2005</b>	<b>13,726</b>	<b>176</b>

\*) For retrospective adjustments as of January 1<sup>st</sup>, 2004 please refer to Note 2 "Accounting policy".

## Explanations to the Unaudited Condensed IFRS Consolidated Financial Statements as at December 31<sup>st</sup>, 2005

### 1. The Company

The accompanying Condensed Interim Consolidated Financial Statements (unaudited – an unqualified audit report on the 2005 IFRS Consolidated Financial Statements is expected from Group auditors) present the operations of European Aeronautic Defence and Space Company EADS N.V. and its subsidiaries ("EADS" or the "Group"), a Dutch public limited liability company (naamloze vennootschap) legally seated in Amsterdam (Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, The Netherlands), and are prepared and reported in Euros ("€"). EADS' core business is the manufacturing of commercial aircraft, civil helicopters, commercial space launch vehicles, missiles, military aircraft, satellites, defence electronics and rendering of services related to these activities.

### 2. Accounting policies

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

As of January 1<sup>st</sup>, 2005, EADS adopted the following revisions and amendments to existing Standards and new Standards and Interpretations as required by the following announcements released by the IASB:

EADS has applied thirteen revised International Accounting Standards (IASs) in conjunction with the Improvements Project (IASs 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 33, 40), new IFRS 2 "Share Based Payment", IFRS 4 "Insurance Contracts" and IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", new IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities", IFRIC 2 "Members' Shares in Co-operative Entities and Similar Instruments" and IFRIC 4 "Determining whether an Arrangement contains a Lease" as well as amendments to IAS 1 (August 2005), IAS 19 (December 2004), IAS 32 (March 2004), IAS 39 (March 2004) and to SIC 12 "Consolidation – Special Purpose Entities".

**IFRS 2 Share-based Payment** —The revised accounting policy for share-based payment transactions is described below. The main impact of IFRS 2 on the Group's Consolidated Financial Statements is the recognition of an expense and a corresponding entry within equity for senior executive and employees' stock options and employee stock ownership plans. In accordance with the transition rules EADS applied the Standard retrospectively to two equity settled plans, which were granted after November 7<sup>th</sup>, 2002 and not vested as of January 1<sup>st</sup>, 2005. (For the effect on previous year figure, please refer to Note 6.)

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

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

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

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

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

As part of the Airbus business combination in 2001, the option granted to BAE Systems to put its 20% stake in Airbus is such a written put option. As such EADS has the obligation to purchase

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

Following IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the adoption of revised IAS 32 is treated as a change in accounting policy firstly effecting EADS' Consolidated Financial Statements as of December 31<sup>st</sup>, 2005 with corresponding adjustments to the prior periods presented. The historical minority interests for BAE Systems' 20% stake in Airbus at the time of the business combination in 2001 have been replaced by the posting of a liability for puttable instruments, the difference between those two amounts being accounted for against consolidated total equity. Prior years dividend payments to BAE Systems have been treated as partial repayments, thus consequently reducing the liability for puttable instruments. All changes to the fair value have been treated as contingent consideration in a business combination in accordance with IFRS 3 "Business Combinations" and led to adjustments of goodwill. (For the effect on previous year figures and the impact on earnings per share, please refer to Note 6, 7 and 11).

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

Besides consequential changes as mentioned above the accounting policies used in the preparation of the Condensed Consolidated Financial Statements are consistent with those used in the annual Consolidated Financial Statements for the year ended December 31, 2004, which are disclosed as an integral part of the Group's Annual Report 2004. The annual Consolidated Financial Statements 2005 were authorised for issue by EADS' Board of Directors on March 7, 2006.

These Condensed Consolidated Financial Statements should be read in conjunction with the annual IFRS Consolidated Financial Statements 2004.

### 3. Changes in the consolidation perimeter of EADS

On February 28, 2005, EADS sold its Enterprise Telephony Business, which comprises its civil telecommunication activities, to Aastra Technologies Limited, Concord / Canada .

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

On November 30<sup>th</sup>, 2005 EADS sold its 50% participation in TDA – Armements S.A.S. to Thales.

Apart from these transactions, other acquisitions or disposals by the Group are not material.

#### 4. Segment information

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

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

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

in M €	Airbus	Military Transport Aircraft	Eurocopter	Defence & Security Systems	Space	Other Businesses	HQ/ Conso.	Consoli- dated
<b>Year ended December 31, 2005</b>								
Revenues	22,179	763	3,211	5,636	2,698	1,155	-1,436	<b>34,206</b>
Research and development expenses	-1,659	-18	-70	-207	-58	-6	-57	<b>-2,075</b>
EBIT pre goodwill imp. and exceptionals (see definition below)	2,307	48	212	201	58	-171	197	<b>2,852</b>
<b>Year ended December 31, 2004</b>								
Revenues	20,224	1,304	2,786	5,385	2,592	1,123	-1,653	<b>31,761</b>
Research and development expenses	-1,734	-26	-61	-185	-61	-7	-52	<b>-2,126</b>
EBIT pre goodwill imp. and exceptionals (see definition below)	1,919	26	201	226	9	2	49	<b>2,432</b>



## 5. EBIT pre goodwill impairment and exceptionals

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

A reconciliation from Profit before finance costs and income taxes to EBIT pre goodwill impairment and exceptionals is set forth in the following table (in M €):

in M €	January 1- Dec. 31, 2005	January 1- Dec. 31, 2004
<b>Profit before finance costs and income taxes</b>	<b>2,712</b>	<b>2,215</b>
Fair value adjustments	140	217
<b>EBIT pre goodwill impairment and exceptionals</b>	<b>2,852</b>	<b>2,432</b>

## 6. Significant profit and loss statement items

The **Gross Margin** increases by M€ +437 to M€ 6,676 compared to M€ 6,239 in 2004. The increase mainly results from Airbus (M€ +335).

**Other income** decreases by M€ -92 to M€ 222. In 2004, it included the release of the provision for VT 1 claim (M€ -106).

**Research and development expenses** of 2,075 M € (2004: 2,126 M €) mainly decrease because of the entry of the A 380 passenger version into the series production phase and increased capitalized development costs for A 380. In 2005, EADS capitalized 259 M € of development costs for A 380 (in 2004: 152 M €).

**Share of profit from associates and other income from investments** of 225 M € (2004: 84 M €) is mainly influenced by the result of Dassault Aviation of 205 M € (2004: 78 M €). The increase is mainly due to positive 2004 IFRS-catch up adjustments accounted for of +64 M € in 2005 compared to negative IFRS-catch up adjustments of -33 M € accounted for in 2004.

The improvement in **finance costs** to -177 M € (2004: -330 M €) mainly results from a lower net interest charge of -155 M € (2004: -275 M €), mainly due to a higher net cash position and customer financing at Airbus.

**Income taxes** of -825 M € (2004: -664 M €) result in an income tax rate of 33 % (2004: 35 %).

**Profit for the period attributable to minority interest** of 34 M € (2004: 18 M €) mainly relates to Finmeccanica for its share in result of MBDA.

**Profit for the period attributable to equity holders of the parent (Net income)** amounts to 1,676 M € (prior year :1,203 M €). The profit for 2004 was adjusted due to the retrospective application of IFRS 2 "Share-based Payment" amounting to -12 M € and revised IAS 32 with an amount of +185 M €.

## 7. Significant balance sheet items

### Non-current assets

**Intangible assets** of 11,052 M € (prior year: 10,549 M €) include 10,167 M € (prior year: 10,001 M €) of Goodwill. It mainly stems from Airbus (6,987 M €), Defence & Security Systems (2,469 M €), Space (559 M €) and Eurocopter (111 M €). The annual impairment tests, which were performed at the end of the year, did not lead to any impairment. The increase is mainly caused by the revaluation of the contingent consideration with regard to the BAE Systems put option of +93 M € and the acquisition of Nokia (+44 M €, see Note 3).

Eliminating foreign exchange-rate effects of +369 M €, **property, plant and equipment** increase by +626 M € to 13,951 M € (prior year: 12,956 M €), including leased assets of 2,385 M €. Most of the increase is attributable to Airbus, due to significant capital expenditures related to the A380 program and to the Space Division. Property, plant and equipment comprises "Investment property" amounting to 134 M € (prior year: 159 M €).

**Investment in associates** of 1,908 M € (prior year: 1,738 M €) mainly increases due to the change in the equity investment of Dassault Aviation, amounting to 1,867 M € (prior year: 1,705 M €).

**Other investments and long-term financial assets** of 1,938 M € (prior year: 2,110 M €) are allocated to Airbus in the amount of 1,242 M € (prior year: 1,553 M €), mainly concerning the non-current portion of aircraft financing activities with a foreign exchange-rate effect of +215 M €.

**Deferred tax assets** of 2,557 M € (prior year: 2,548 M €) are presented as non-current assets as required by IAS 1.

**Non-current other assets** mainly comprise non-current financial instruments and "non-current prepaid expenses". The decrease by -3,486 M € to 3,610 M € (prior year: 7,096 M €) is mainly caused by the variation of the non-current portion of fair values of financial instruments and the reclassification to "other current assets" of those contracts becoming current.

The fair values of **financial instruments** are included in non-current other assets with an amount of 2,762 M € (prior year: 6,243 M €), in current other assets (1,191 M €, prior year: 2,705 M €), in non-current provisions (472 M €, prior year: 137 M €) and in current provisions (449 M €, prior year: 44 M €). While the volume of hedged US dollar-contracts has risen from 40.2 bn US dollar to 47.1 bn US dollar, the US dollar exchange rate decreased (USD / € spot rate of 1.18 at December 31<sup>st</sup>, 2005 vs. 1.36 at December 31<sup>st</sup>, 2004). The average US dollar hedged rate for the hedge portfolio of the Group as at December 31<sup>st</sup>, 2005 increased for the same period (US dollar / € rate of 1.12 as at December 31<sup>st</sup>, 2005 vs. 1.03 as at December 31<sup>st</sup>, 2004).

### Current assets

**Inventories** of 15,425 M € (prior year: 12,334 M €) increase by 3,041 M € (without foreign exchange revaluation of +50 M €) in all divisions. This is mainly driven by a higher level of unfinished goods and services (mainly Airbus for A380 (+1,054 M €) and A400M (+488 M €), the start of several serial production programs in Eurocopter (+416 M €)) and higher advance payments made (+647 M €). Inventories are shown with their gross amount. Those advance payments received, which so far were deducted from inventories are now reclassified to current and non-current other liabilities. Previous year figure has been adjusted accordingly with an amount of 9,259 M €.

The increase in **trade receivables** by +396 M € to 4,802 M € (prior year: 4,406 M €) comes to a large extent from Space (+408 M €).

**Other current assets** include “Current portion of long-term financial assets”, “Current other assets”, “Current tax assets” and “Current prepaid expenses”. The decrease of -1,567 M € to 3,675 M € (prior year: 5,242 M €) is caused with -1,514 M € by the variation of the current portion of fair values of financial instruments (see “Financial instruments” under “Non-current assets”).

**Cash and cash equivalents** increase from 8,718 M € to 9,546 M €

### Total equity

**Equity attributable to equity holders of the parent** (including treasury shares) amounts to 13,726 M € (prior year: 16,210 M €), mainly resulting from a profit for the period (Net income) of +1,676 M €, offset by a cash distribution to shareholders of -396 M €, a decrease of OCI of -3,696 M €, primarily resulting from changes in fair values as well as consumption of derivative financial instruments and the purchases of treasury shares of -288 M €

**Minority interests** of 176 M € (prior year: 144 M €) mainly represent shares of Finmeccanica in MBDA. According to revised IAS 32, minority interests for BAE Systems’ share in Airbus are shown as “liability for puttable instruments”.

### Non-current liabilities

**Non-current provisions** of 6,879 M € (prior year: 6,074 M €) comprise the non-current portions of pension provisions with an increase of +151 M € to 3,900 M € and other provisions, increasing by +654 M € to 2,979 M €. Other provisions include among others aircraft financing activities with an increase of +110 M € to 1,153 M € (excluding foreign exchange rate effects of +178 M €) and provisions for derivative financial instruments according to IAS 39 with an increase of +335 M € to 472 M €

**Long-term financial liabilities** of 4,189 M € (prior year: 4,405 M €), excluding foreign exchange-rate effects of +271 M €, decrease by -487 M € in particular due to the refinancing of the Skynet V program.

**Deferred tax liabilities** of 2,376 M € (prior year: 4,134 M €) are significantly influenced by the decrease in the fair value of financial instruments accounted for as “Non-current other assets” and “Other current assets”. They are defined as non-current liabilities.

**Other non-current liabilities** comprise “Non-current other liabilities” and “Non-current deferred income”. Without considering foreign exchange-rate effects of +81 M €, other non-current liabilities increase by +947 M € to 11,295 M € (prior year: 10,267 M €). Other non-current liabilities mainly include the non-current portion of European Government refundable advances amounting to 4,950 M € (prior year: 4,781 M €) and non-current customer advance payments received of 4,911 M € (prior year: 3,985 M €). Advance payments received are also included for their non-current portion, which have previously been recorded as a deduction from inventories. Previous year figure has been adjusted accordingly with an amount of +632 M €. Non current deferred income of 1,324 M € (prior year: 1,490 M €) mainly decreases due to amortization of amounts relating to the RVG restated portfolio.

### Current liabilities

**Current provisions** slightly increase by +377 M € to 2,727 M € (prior year: 2,350 M €) and comprise the current portions of pensions (220 M €) and other provisions (2,507 M €). The

increase mainly reflects the revaluation of derivative financial instruments according to IAS 39 (+405 M €).

**Short-term financial liabilities** of 908 M € (prior year: 818 M €), excluding foreign exchange-rate effects of +18 M €, slightly increase by +72 M €.

As of January 1<sup>st</sup>, 2005, EADS adopted retrospectively revised IAS 32 and accounted for a **liability for puttable instruments** of 3,500 M € (prior year: 3,500 M €) for the 20 % interest of BAE Systems in Airbus.

Without considering foreign exchange rate effects of +66 M €, **trade liabilities** increase by +708 M € to 6,634 M € (prior year: 5,860 M €), mainly coming from Airbus (+505 M €) and Space (+136 M €).

**Other current liabilities** include "Current other liabilities" and "Current deferred income". Without considering foreign exchange rate revaluations of +36 M €, they increase by 3,480 M € to 17,739 M € (prior year: 14,223 M €). Other current liabilities mainly comprise current customer advance payments of 14,078 M € (prior year: 10,884 M €). The current portion of advance payments, which has previously been deducted from inventories is reclassified to other current liabilities. The figure of previous year has been adjusted accordingly with an amount of +8,627 M €.

## 8. Significant cash flow items

**Cash provided by operating activities** increases by +94 M € to 5,107 M € (2004: 5,013 M €). This increase mainly reflects improvements in EADS operations. The positive variation in working capital (change in other operating assets and liabilities) of 1,239 M € (2004: 2,155 M €) primarily results from an increase in inventories, more than offset by ongoing customer advance payments.

**Cash used for investing activities** decreases by +387 M € to -3,362 M € (2004: -3,749 M €). The outflow is mainly caused by Airbus and Skynet V activities and the net acquisition of securities.

**Cash used for financing activities** increases by -986 M € to -934 M € (2004: +52 M €). The outflow mainly contains cash distribution paid to shareholders, repayments of financial liabilities as well as the purchases of treasury shares.

## 9. Contingencies

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

EADS continues to expense the contributions made to the pension schemes as if the plans were defined contribution plans.

## 10. Number of shares

The total number of shares outstanding is 797,140,426 and 799,550,294 as of December 31<sup>st</sup>, 2005 and 2004, respectively. EADS' shares are exclusively ordinary shares with a par value of 1.00 €

During 2005, EADS repurchased 11,910,287 of its ordinary shares (in 2004: 3,787,523) in conjunction with the share-buyback program. The General shareholders' meeting on May 11<sup>th</sup>, 2005 had renewed the authorization given to the Board of Directors to repurchase shares of EADS. 1,336,358 of these treasury shares (in 2004: 5,686,682 shares), repurchased and held by the Group, were cancelled.

7,562,110 new shares (in 2004: 362,747 shares) were issued as a result of the exercise of stock options in compliance with the implemented stock option plans. Under the 2005 Employee Stock Ownership Plan, 1,938,309 shares were issued in July 2005 (in 2004: 2,017,822 shares).

## 11. Earnings per share

The net income for 2004 was adjusted due to retrospective application of IFRS 2 and revised IAS 32 in 2004 with an amount of +173 M €

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

	January 1 to December 31, 2005	January 1 to December 31, 2004
Net income attributable to shareholders	1,676 M €	1,203 M €
Weighted average number of ordinary shares outstanding	794,734,220	801,035,035
Basic earnings per share	2.11 €	1.50 €
thereof effect from the initial application of IAS 32 (revised) "Liability for puttable instruments"	0.36 €	0.23 €
thereof effect from the initial application of IFRS 2 "Share- based Payment"	-0.04 €	-0.02 €

For calculation of the **diluted earnings per share**, the weighted average number of ordinary shares is adjusted to assume conversion of all potential ordinary shares. The Group's only category of dilutive potential ordinary shares is stock options. Since the average price of EADS shares during 2005 exceeded the exercise price of the stock options under the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> stock option plans (in 2004: 4<sup>th</sup> and 5<sup>th</sup> stock option plan) initiated by the Group, the inclusion of the related potential ordinary shares increases the weighted average number of shares. 5,482,133 shares (2004: 3,047,837 shares) are considered dilutive according to IAS 33.

	January 1 to December 31, 2005	January 1 to December 31, 2004
Net income attributable to shareholders	1,676 M €	1,203 M €
Weighted average number of ordinary shares outstanding (diluted)	800,216,353	804,082,872
Diluted earnings per share	2.09 €	1.50 €
thereof effect from the initial application of IAS 32 (revised) "Liability for puttable instruments"	0.36 €	0.23 €
thereof effect from the initial application of IFRS 2 "Share- based Payment"	-0.04 €	-0.01 €

## 12. Related party transactions

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

## 13. Number of employees

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