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1.1 Presentation of the EADS Group

1.1.1 Overview

Due to the nature of the markets in which EADS operates and the confidential nature of its businesses, any statements with respect to EADS' competitive position set out in paragraphs 1.1 through 1.1.8 below have been based on EADS' internal information sources, unless another source has been specified below.

With consolidated revenues of €34.2 billion in 2005, EADS is Europe's premier aerospace and defence company and the second largest aerospace and defence company in the world. In terms of market share, EADS is among the top two manufacturers of commercial aircraft, civil helicopters, commercial space launch vehicles and missiles systems, and a leading supplier of military aircraft, satellites and defence electronics. In 2005, it generated approximately 77.5% of its total revenues in the civil sector and 22.5% in the military sector.

2005 Highlights

Over the course of the year, EADS continued to position itself for sustained growth and profitability, in line with its strategy of being a leading company in the major global aerospace and defence markets. The record order book of €253 billion at the end of 2005 (consisting of €201 billion in commercial business and €52 billion in defence) constitutes a considerable asset for EADS' future growth.

EADS' business environment in 2005 was characterised by a record year for the aviation industry. Airlines ordered an unprecedented number of commercial aircraft, led by strong demand from low cost carriers and the rapid growth of commercial aviation in Asia. Higher oil prices contributed to an increased demand for fuel-efficient aircraft. In 2005, the two leading aircraft manufacturers combined secured 2,140 new orders for aircraft of 100 seats or more last year, compared with the previous record of 1,528 in 1989 and 1,131 at the peak of the last cycle in 2000. As recently as 2003, orders touched a cyclical low of 524.

For the third year in a row, Airbus delivered more aircraft and took in more orders than Boeing. Airbus received 1,111 gross orders in 2005, representing over 52% of gross new aircraft orders for the year. Airbus delivered 378 aircraft in 2005 (320 aircraft in 2004). In 2005, the A380 made its first flight on 27th April. At year-end, total firm orders for the A380 stood at 159 from 16 customers. In October 2005, to complement the long-range family of Airbus, the EADS Board of Directors approved the industrial launch of the A350 aircraft. At the end of 2005, Airbus had obtained 172 orders and commitments from 13 customers for the A350.

Expanding EADS' capabilities and business revenues in the defence sector is a core strategic priority for the Group. Although sales in the defence sector remained subject to constrained procurement budgets in EADS' home markets, defence-related revenues remain stable at €7.7 billion and the defence-related order book grew from €49 billion at year-end 2004 to €52 billion at year-end 2005. Contributing to this achievement in 2005 were Spain's order for the Taurus air-to-ground missile, an order for Eurofighter self-protection electronics, India's order for Exocet missiles and France's appointment of EADS to develop a new army information and communication system. As part of the Medium Extended Air Defence System ("MEADS") International consortium, EADS was awarded a key role in designing and developing the tri-national MEADS system.

The Space Division confirmed its return to profitability in 2005, reflecting the positive impact of two years of major industrial reengineering. EADS Space finished the year with a positive EBIT* of €58 million (as compared to €9 million in 2004).

Strategy

In order to maximise value for its shareholders and to balance its portfolio, the management of EADS (the "Management") intends to position EADS as a leading company in major global aerospace and defence markets.

EADS has defined four strategic goals to sustain continuous growth and profitability improvements.

Maintain the long-term parity in commercial aircraft: EADS will strive to lead the commercial aircraft market in terms of product innovation and customer satisfaction, and to further develop its international partnerships.

Develop strong growth drivers in EADS' non-Airbus portfolio: Faced with governmental procurement budget constraints and the scarcity of new programs in Europe, EADS intends to pursue its growth strategy by taking a global approach, with strategic acquisitions of businesses in key markets and with enhanced efforts to offer new solutions capitalizing on EADS' ability to leverage its broad base of capabilities and products.

Become a truly global industrial group: To insure access to the growth potential of markets where the traditional commercial approach has reached its limits, EADS is designing a long-term industrial strategy and implementing an industrial footprint in key markets around the world.

Achieve best-in-class profitability: EADS seeks to reach its long-term strategic goals, while achieving best in class profitability, in every segment in which it operates. The Group has already increased EBIT* margin from 5.5% in 2001 to 8.3% in 2005 (its highest ever EBIT* margin level), and intends to further improve its EBIT* margin in the future.

To achieve the strategic goals outlined above, EADS' management is relying on three principal growth and profitability drivers – internationalisation, innovation and improvement.

Internationalisation

EADS has so far successfully built a European industrial group, with global export sales in excess of 60% outside Europe. While EADS has established a decisive and conclusive presence in non-European markets, it will continue its efforts to solidify its position as a global industrial group. These efforts are orchestrated at the Group level to allow for anticipation, cohesiveness and synergies between the Group's BUs.

In line with this approach, EADS is seeking to establish itself as a strong local player in key markets such as the U.S., China, Russia, South Korea and India. In these markets, EADS is seeking to construct an industrial footprint aimed

at establishing long-term market access, while benefiting from high market growth potential, technology potential and structural cost advantages, natural hedging and risk sharing opportunities. Overall, EADS will continue to evolve with the global industrial and commercial landscape focused not only on the above-mentioned key markets, but on other countries with significant potential such as Brazil, Turkey, Poland and Australia.

In the U.S., the goal is to firmly establish a presence as a valued corporate citizen in the world's largest Defence and Homeland Security market. EADS is in the midst of pursuing a four-pillar strategic approach: creating a U.S. industrial presence, developing transatlantic co-operations, acquiring small/mid-sized defence companies and cooperating with U.S. prime contractors. In 2005, several key agreements were reached in line with the Group's strategy: The Military Transport Aircraft Division (the "MTA Division" or "MTA") with Raytheon for the Future Cargo Aircraft campaign, Northrop Grumman for KC-30 Tanker (including the decision to build the final assembly line in Alabama) and Eurocopter with Sikorsky for the Light Utility Helicopter program.

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

In South Korea, following a long competitive process, Eurocopter was selected to develop, in collaboration with KAI, a new military transport helicopter (8-ton). This project is expected to serve as a strong foundation for further expansion of EADS' position in South Korea.

India has already proven to be a growth market for commercial opportunities (e.g., 229 Airbus orders in 2005). The current challenge is to use these successes as a foundation for expansion of the defence business, which represents the largest share of potential growth on the Indian market.

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As Russia's economy continues to develop in a promising direction, the Russian aerospace and defence industry is gaining new strength through restructuring and consolidation. Through its acquisition in 2005 of a 10% stake in Irkut, EADS is investing in a key player in the future industrial landscape in Russia.

Innovation

A continued focus on technological innovation is critical to EADS' strategy of reinforcing its role as a market leader in the future, offering a broad spectrum of ground-breaking solutions to its customers.

Compared to its peers, EADS has consistently devoted more resources to research and development ("R&D") (both in terms of absolute numbers and as a percentage of sales). In 2005, EADS self-financed €2.1 billion of R&D. Management believes that the Group's substantial R&D investment is paying off, both in terms of improvements in the Group's competitive position and the resulting return on investment.

EADS has established challenging targets for its technology innovation approach. The Group's systematic use of the latest digital design and engineering tools underlies its efforts to offer the capability of completing major platform developments in relatively short time frames. EADS intends to accelerate its review of core technologies and its processes for creating or compensating technology gaps vis-à-vis its competitors.

The Group also intends to focus on the screening of disruptive technologies and maintaining openness to outside ideas. EADS will therefore double the technological programs developed in cooperation with academic and industrial partners on an international basis.

In the defence business, the transformation processes of U.S. and European defence forces and public safety agencies as well as the need for a more efficient use of defence budgets have changed the customers' demands. Recognizing these changes, EADS intends to offer new solutions as lead system/capability integrator for defence and homeland security programs as C4ISR (command, control, communication, computers, surveillance and intelligence), Border security, Extended Air Defence, Unmanned Aerial Vehicles and Military Space.

In addition to systems innovation, innovative service solutions are also an important area of focus for the Group in its efforts to broaden programme leadership. EADS intends to further develop an outsourced service offering based on the successes of Paradigm and the prospects of the Future Strategic Tanker Aircraft ("FSTA").

Improvement

Transforming the Group's record backlog of more than €253 billion into benchmark profitability will depend on the Group's ability to improve operational performance, measured in terms of time, cost and quality, both within EADS and at its key suppliers.

Management has prioritised the successful implementation and execution of improvement plans and projects throughout the Group. Improvements in operational performance will require real-time visibility of the status of all operational parts and data flows with EADS and its key suppliers. These efforts will be supported by the integrated planning and execution of closed-loop collaborative processes and tools designed to support effective decision making and to enable the launch of early recovery actions.

Organisation of EADS Businesses

EADS principal businesses fall under five Divisions: (1) Airbus, (2) Military Transport Aircraft, (3) Eurocopter, (4) Defence and Security Systems and (5) Space. The chart set out in "— 3.3.6 Simplified Group Structure Chart" illustrates the allocation of activities among these five Divisions.

In June 2005, the former Aeronautics Division, which included the Eurocopter, ATR, EADS EFW, EADS Socata and EADS Sogerma Services BUs, was dissolved and a new Eurocopter Division was created. Following this change to EADS' organisational structure, EADS EFW and EADS Sogerma Services are under the direct responsibility of Gustav Humbert and ATR and EADS Socata are under the direct responsibility of Hans Peter Ring. In the adapted segment reporting, EADS allocates the four legacy Aeronautics BUs to "Other Businesses".

Airbus

Airbus is one of the world's two leading suppliers of commercial aircraft of more than 100 seats. Since it was founded in 1970 up to the end of 2005, Airbus has received 6,307 orders for aircraft from 225 customers worldwide. Its market share of annual deliveries worldwide has grown from 15% in 1990 to 57% in 2005, surpassing its rival Boeing for the third time. At 31st December 2005, its backlog of orders (2,177 aircraft) stood at 80% of total EADS worldwide backlog. Gross order intake was 1,111 aircraft and after accounting for cancellations, net order intake for 2005 was 1,055 aircraft. In 2005, the Airbus Division of EADS earned revenues of €22.2 billion, representing 65% of EADS total revenues. See “— 1.1.2 Airbus”.

Military Transport Aircraft

The MTA Division manufactures and sells light and medium military transport aircraft and is responsible for the development of the European heavy military transport A400M project. In addition, the MTA Division produces and sells mission aircraft, which are derived from existing platforms and dedicated to specialised military tasks such as maritime surveillance, antisubmarine warfare and in-flight refuelling capabilities. The MTA Division also designs and manufactures aerostructure elements. The MTA Division earned consolidated revenues of €763 million accounting for 2% of EADS' total revenues for 2005. The €19.7 billion contract to manufacture and deliver the A400M was signed in 2003, contributing to significant future revenue growth for EADS. See “— 1.1.3 Military Transport Aircraft”.

Eurocopter

Eurocopter is one of the world's leading producers of helicopters and the leader in the European civil and military helicopter market. Management expects Eurocopter sales in the military market to increase substantially due to the commencement of delivery of the Tiger attack helicopter, the strong backlog of the NH90 military transport helicopter and the increasing demand in military and para-military export markets. In 2005, Eurocopter captured 52% of the worldwide market for civil helicopters and 18% of the worldwide market for military helicopters. The Eurocopter Division earned consolidated revenues of €3.2 billion representing 9% of EADS' total revenues for 2005. See “— 1.1.4 Eurocopter”.

Defence and Security Systems

The Defence and Security Systems Division (the “**DS Division**”) is active in the field of integrated defence and security solutions including missile systems, combat aircraft, defence electronics, military communications and “homeland security”. Its customers are military forces and law enforcement agencies worldwide. In 2005, EADS' subsidiary MBDA maintained as the worldwide leader missile system manufacturer. Its Military Air Systems unit is a leading partner in the Eurofighter consortium and is also active in the UAV field. EADS is the third largest supplier of defence electronics in Europe and plays a significant role in the secure and encrypted military communications market. The DS Division is also increasingly active in the ‘homeland security’ market. On a consolidated basis, the DS Division earned revenues of €5.6 billion for 2005, representing 16% of EADS' total revenues. See “— 1.1.5 Defence and Security Systems”.

Space

EADS is the third largest space systems manufacturing company in the world after Boeing and Lockheed Martin and the leading European supplier of satellites, orbital infrastructures and launchers. The Space Division designs, develops and manufactures satellites, orbital infrastructures and launchers largely through its subsidiaries EADS Astrium and EADS Space Transportation (“**EADS ST**”), and provides space services through its EADS Space Services subsidiary. The Space Division also provides launch services, through its shareholdings in Arianespace, Starsem and Eurockot, as well as services related to telecommunications and earth observation satellites, through dedicated companies, such as Paradigm. For 2005, the consolidated revenues of the EADS Space Division amounted to €2.7 billion, or 8% of EADS' total revenues. See “— 1.1.6 Space”.

Investment

Among its significant investments, EADS holds a 46.3% stake in Dassault Aviation, a major participant in the world market for military jet aircraft and business jets. See “— 1.1.8 Investments”.

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Summary Financial and Operating Data

The following tables provide summary financial and operating data for EADS for the years ended 31st December 2005, 31st December 2004 and 31st December 2003.

Consolidated Revenues for the years ended 31st December 2005, 2004 and 2003 by Division

	Year ended 31st December 2005		Year ended 31st December 2004		Year ended 31st December 2003	
	Amount in € bn	In percentage*	Amount in € bn	In percentage*	Amount in € bn	In percentage*
Airbus	22.2	64.3%	20.2	62.7%	19.0	63.1%
Military Transport Aircraft	0.8	2.2%	1.3	4.0%	0.9	3.1%
Eurocopter***	3.2	9.3%	2.8	8.6%	2.6	8.7%
Defence and Security Systems	5.6	16.4%	5.4	16.7%	5.2	17.1%
Space	2.7	7.8%	2.6	8.0%	2.4	8.0%
Total Divisional Revenues	34.5	100.0%	32.3	100.0%	30.2	100.0%
Other Businesses***	1.1		1.1		1.2	
Headquarters/Eliminations**	(1.4)		(1.6)		(1.3)	
Total Consolidated Revenues	34.2		31.8		30.1	

(*) Percentage of total divisional revenues before headquarters / eliminations.

(**) Includes inter-company eliminations and headquarters sales.

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

Consolidated Revenues by Geographical Area for the years ended 31st December 2005, 2004 and 2003

	Year ended 31st December 2005		Year ended 31st December 2004		Year ended 31st December 2003	
	Amount in € bn	In percentage*	Amount in € bn	In percentage*	Amount in € bn	In percentage*
Europe	13.6	39.7%	14.6	45.7%	14.0	46.4%
North America	9.0	26.4%	8.7	27.4%	8.0	26.7%
Asia/Pacific	7.7	22.6%	4.9	15.6%	4.0	13.4%
Rest of the World**	3.9	11.3%	3.6	11.3%	4.1	13.5%
Total	34.2	100.0%	31.8	100.0%	30.1	100.0%

(*) Percentage of total revenues after eliminations.

(**) Including the Middle East.

Consolidated Orders Booked for the years ended 31st December 2005, 2004 and 2003

	Year ended 31st December 2005		Year ended 31st December 2004		Year ended 31st December 2003	
	Amount in € bn	In percentage***	Amount in € bn	In percentage***	Amount in € bn	In percentage***
Orders booked:*						
Airbus**	78.3	84.5%	25.8	58.2%	39.9	53.1%
Military Transport Aircraft	1.8	2.0%	1.2	2.6%	20.3	27.0%
Eurocopter****	3.5	3.8%	3.2	7.3%	2.6	3.4%
Defence and Security Systems	6.7	7.2%	8.5	19.1%	6.3	8.4%
Space	2.3	2.5%	5.7	12.8%	6.1	8.1%
Total Divisional Orders	92.6	100.0%	44.4	100.0%	75.2	100.0%
Other Businesses****	1.9		1.1		1.2	
Headquarters / Eliminations**	(2)		(1.4)		(15.2)	
Total	92.6		44.1		61.2	

(*) Without options.

(**) Based on catalogue prices.

(***) Before headquarters/eliminations.

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

Consolidated Backlog for the years ended 31st December 2005, 2004 and 2003 ****

	Year ended 31st December 2005		Year ended 31st December 2004		Year ended 31st December 2003	
	Amount in € bn	In percentage***	Amount in € bn	In percentage***	Amount in € bn	In percentage***
Backlog:*						
Airbus**	202.0	77.0%	136.0	70.3%	141.8	74%
Military Transport Aircraft	21.0	8.0%	19.9	10.3%	20.0	10%
Eurocopter*****	10.0	3.8%	9.1	4.7%	8.7	5%
Defence and Security Systems***	18.54	7.0%	17.3	8.9%	14.3	7%
Space	10.9	4.2%	11.3	5.8%	7.9	4%
Total Divisional Backlog***	262.34	100.0%	193.6	100.0%	192.7	100%
Other Businesses*****	2.1		1		1.1	
Headquarters / Eliminations	(11.2)		(10.4)		(14.5)	
Total	253.2		184.3		179.3	

(*) Without options.

(**) Based on catalogue prices or commercial aircraft activities.

(***) Before headquarters / eliminations.

(****) For a discussion on the calculation of backlog, see "Part 1/1.1.4.1 Order Backlog".

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

Relationship Between EADS N.V. and the Group

EADS N.V. itself does not engage in the core aerospace, defence or space business of its Group but coordinates related businesses, sets and controls objectives and approves

major decisions for its Group. As the parent company, EADS N.V. conducts activities which are essential to the Group activities and which are an integral part of the overall management of the Group. In particular, finance activities pursued by EADS N.V. are in support of the business activities and strategy of the Group. In connection therewith,

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EADS N.V. provides or procures the provision of services to the subsidiaries of the Group. General management service agreements have been put in place with the subsidiaries and services are invoiced on a cost plus basis.

For management purposes, EADS N.V. acts through its Board of Directors, Executive Committee, and Chief Executive Officers in accordance with its corporate rules

and procedures detailed in “Part 1 / Chapter 2 — Corporate Governance”.

Within the framework defined by EADS, each Division, business unit (“BU”), and subsidiary is vested with full entrepreneurial responsibility.

To the best knowledge of Management, there are no pledges over any of the assets of EADS N.V.

1.1.2 Airbus

Introduction and Overview

Airbus is one of the world’s two leading suppliers of commercial aircraft of more than 100 seats. Its market share of annual deliveries worldwide has grown from 15% in 1990 to 57% in 2005. At 31st December 2005, its backlog of orders (2,177 aircraft) stood at 80% of total EADS worldwide backlog. After accounting for cancellations, net order intake for 2005 was 1,055 aircraft. In 2005, the Airbus Division of EADS earned revenues of €22.2 billion, representing 65% of EADS total revenues.

Based on deliveries in 2005, Airbus was the largest supplier of commercial aircraft in the world, surpassing its rival Boeing for the third year. Since it was founded in 1970 up to the end of 31st December 2005, Airbus has received orders for 6,307 aircraft from approximately 225 customers around the world.

Several factors have contributed to the success of Airbus: its portfolio of modern aircraft, its consistent technological innovation, its stable pool of highly skilled employees and its concept of aircraft ‘families’ that offer customers cost savings in crew training, maintenance and supply for their fleets of different sized Airbus aircraft. In addition, Management strongly believes that the international composition of Airbus represents a competitive advantage in the global marketplace.

Airbus S.A.S. is jointly owned by EADS (80%) and BAE Systems (20%).

Strategy

The paramount strategic goal of Airbus is to deliver first-rate economic returns in a sustainable manner by continuing to develop a superior family of products and commanding half of the world commercial aircraft market over the long-term. To achieve this end, Airbus is actively:

Completing the most comprehensive line of products targeted to customer needs

This entails (i) a major effort to deliver the first A380s to customers before the end of 2006, (ii) the gradual extension of relevant freighter applications across the range of Airbus aircraft, (iii) the continuous maintenance of existing models’ competitive edge in their respective markets, (iv) and the entry into the military business through new aircraft such as the A400M or the development of military derivatives products such as the Multi Role Tanker Aircraft (“MRTT”) based on the A330 airframe.

Focusing on key geographic markets

Airbus is seeking to penetrate certain key markets such as China and Russia, and to consolidate its position in the difficult U.S. airline market, where most of the carriers are facing financial difficulties.

Expanding its offering of services to customers

Expansion of its offering of customer services will enable Airbus to remain at the forefront of its industry by (i) designing answers to customers’ evolving needs, and

(ii) ensuring optimal Airbus placement along the industry's value chain.

Perfecting its industrial operations

Management is focused on capturing the benefits of integration, to enhance its response to changes in volume and mix, and to carry out A380 related investments with a strong focus on flexibility and efficiency.

Market

Cyclical and Market Drivers

The main factors affecting the aircraft market include passenger demand for air travel, national and international regulation (and deregulation), and the rate of replacement and obsolescence of existing fleets. The performance, competitive posture and strategy of airlines, cargo operators and leasing companies, wars, political unrest and extraordinary events may act as a catalyst, precipitate changes in demand and lead to short term market imbalances.

The no-frills/low-cost carriers continue to emerge as a significant sector within domestic markets. They have developed in the U.S. and Europe by following a business model that leverages the benefits of minimising costs while stimulating demand by offering low fares to and from short and medium range, often under-served, destinations. In 2005, new low cost carriers have emerged in India and Latin America. The strong growth of Asian low cost carriers has been also confirmed. This business model, which proved to be particularly successful in the U.S. following market deregulation, is now being adopted by a growing number of airlines in Europe and Asia, resulting in increased demand and increasing market share for low-cost carriers. Airbus' family of modern single aisle aircraft based on the A320 is well positioned to provide the operating cost base and flexibility demanded by this segment of the market. Airbus already has a strong presence in the U.S. no-frills/low-cost market with JetBlue, America West and Frontier, and has also been successful in penetrating airlines in the growing low cost sector in Latin America with Volaris and TACA and in Asia, with sales and commitments from Cebu Pacific, Air Deccan, Indigo and Air Asia, for example.

Overall Growth. The market for passenger jetliners depends primarily on the demand for air travel, which is itself

primarily driven by economic or gross domestic product ("GDP") growth, fare levels and demographic growth. Measured in revenue passenger kilometres, air travel increased every year from 1967 to 2000, except for 1991 due to the Gulf War, resulting in an average annual growth rate of 7.9% for the period. In 2004, Airbus projected that air travel would grow at 5.3% per annum during the period 2004-2023.

Cyclical. Although those in the industry feel that long-term growth in air travel is secure, the market for aircraft has proven to be cyclical, due to the volatility of airline profitability and cycles of the world economy. When cyclical downturns have occurred in the past, aircraft manufacturers have typically experienced decreases in aircraft orders and lower deliveries followed by a period of sustained order and delivery activity. 2005 has been a record year in terms of orders for civil aircraft, whereas the last record year was 2000.

Regulation / Deregulation. National and international regulation (and deregulation) of international air services and major domestic air travel markets affect demand for passenger jetliners. In 1978, the United States undertook the deregulation of its domestic air transportation system. Other regions have followed this model, notably Europe since 1985.

The Federal Aviation Authority ("FAA") Stage 3 anti-noise regulations requiring operators to replace many older aircraft by the end of 1999 also had an impact on demand, resulting in a significant increase in North American orders in the years leading up to and following implementation of the regulations.

Airline Network Development: Hubs. As a consequence of deregulation policies, major airlines are constantly adapting their fleet, network and commercial strategies. This adaptation is possible because of the availability of new aircraft capable of meeting customer requirements in terms of cost and performance. In response to the price demands of passengers and competition of new no frills / low cost carriers, major airlines have organised their operations around strategically located "hub" airports enabling them to link more cities at lower fares. This affects demand as hubs permit fleet standardisation around both smaller aircraft types for the short, thin and high frequency routes feeding the hubs (between hubs and spokes) and larger aircraft for longer and higher density routes between hubs (hub-to-hub). As a result, worldwide deregulation has contributed

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to the diversification of airline strategies, which in itself has resulted in airlines requiring a wider range of aircraft to implement such strategies.

Fragmentation. The term “fragmentation” describes markets in which point-to-point services replace or take a share of traditional hub and spoke/connection traffic. Fragmentation of this type has primarily occurred on short and medium range domestic U.S. routes, in response to competition and as a means for airlines to differentiate their services from one another.

The trend towards fragmentation on long and very long haul routes, driven by the development of new routes between secondary cities, will be facilitated by the availability of more modern, efficient aircraft. In the trans-atlantic market, the development of new non-stop services between secondary cities is expected to drive demand for intermediate wide body aircraft such as the A330 or the A350. Airbus believes that it is, with its complete family of products from the 107-seat A318 to the 555-seat A380, well-positioned to meet future market requirements.

Alliances. The development of world airline alliances is reinforcing these strategies. According to data from Airclaims, a U.K.-based aviation industry consultancy, half of the world’s jetliner fleet of over 100 seats was operated by 35 airlines as of December 2005. In the 1990s, the major airlines began to enter into alliances that give each alliance member access to the other alliance members’ hubs and routings, allowing airlines to concentrate their hub investments while extending their product offering.

Governmental Funding. A 1992 bilateral agreement between the E.U. and the U.S. provided for ceilings on reimbursable launch investments (typically used by European governments) of 33% of the total development costs of new large civil aircraft programmes. It also set a ceiling at 3% of industry revenues for indirect support in relation to the development or production of large civil aircraft (typically the Department of Defence and National Aeronautics and Space Administration (“NASA”) mechanisms used in the U.S.). This bilateral agreement had provided a level playing field for government support, reflecting the needs of both Europe and the U.S.

The unilateral withdrawal from the 1992 agreement by the U.S. government in late 2004 eventually led to formal claims and counterclaims being made by the U.S. and the E.U. respectively with the World Trade Organisation. The E.U.

and the U.S. have also entered into negotiations to seek a resolution to the issues being disputed in the formal World Trade Organisation (“WTO”) process, with the goal of agreeing a new system that provides for a level playing field when funding future aircraft developments.

Market Structure and Competition

Market Segments. Currently, Airbus competes in each of the three principal market segments. “Single aisle” aircraft, such as the A320 Family, have 100-210 seats in two rows divided by one aisle and are used principally for short-range and medium-range routes. “Twin aisle” or “wide body” aircraft, such as the A300/A310 and A330/A340 Families, have a wider fuselage with more than 210 seats in three rows divided by two aisles. Both the A300/A310 and A330/A340 Families are used on short-range and medium-range routes, with the A330/A340 Family being capable of ultra-long range operations. “Very large aircraft”, such as the A380 Family, are designed to carry more than 400 passengers non-stop over very long-range routes with superior comfort standards and with significant cost-per-seat benefits to airlines. Freight aircraft, which form a fourth, related segment, are often converted ex-passenger aircraft. See “— 1.1.7 Other Businesses — Aircraft Conversion and Floor Panels”. In addition, the A300-600 has been a successful all-new freight aircraft (A300-600F) with increasing popularity among major express courier providers and airlines, such as Federal Express, UPS and Air Hong Kong. Nevertheless, Airbus announced in March 2006 that the last A300-600 will be delivered in July 2007, after 35 years of commercialisation and production of the A300 aircraft. Airbus also competes in the corporate, VIP business jet market with the ACJ an A319-based Corporate Jetliner, which has proved popular as a corporate shuttle and in government/VIP roles.

According to a study conducted by Airbus, a total of 11,850 aircraft with more than 100 seats were in service during December 2005 (as compared to 10,800 aircraft at the end of 2004).

The high proportion of single aisle aircraft in both North America and Europe reflects the predominance of domestic short-range and medium-range flights, particularly in North America due to the development of hubs following deregulation. In comparison with North America and

Europe, the Asia-Pacific region uses a greater proportion of twin aisle aircraft, as populations tend to be more concentrated in fewer large urban centres than in the U.S. This distinction is compounded by the fact that many of the region’s major airports limit the number of flights either due to environmental concerns or to infrastructure constraints limiting the ability to further increase flight frequency. These constraints necessitate higher average aircraft seating capacity per flight.

Competition. Airbus has been operating in a duopoly since Lockheed’s withdrawal from the market in 1986 and Boeing’s acquisition of McDonnell Douglas in 1997. As a result, the market for passenger aircraft of more than 100 seats is now effectively divided between Airbus and Boeing. According to manufacturers’ published figures, in 2005 Airbus and Boeing, respectively, accounted for 57% and 43% of total deliveries, 52% and 48% of total gross orders, and 53% and 47% of the total year-end backlog.

The significant barriers to entry into the market for passenger aircraft of more than 100 seats make it unlikely that a newcomer will be able to compete effectively with either of the established suppliers in the foreseeable future.

Customers

As of 31st December 2005, Airbus had approximately 225 customers, 4,130 Airbus aircraft had been delivered to operators worldwide since the creation of Airbus, and 2,177 aircraft were on order. The table below shows Airbus’ most significant gross firm orders, by number of aircraft, for the year 2005.

Customer	Firm Orders*
CASC (China)	150
Indigo	100
Aercap	70
Air Asia	60
GECAS	40
Air Deccan	30
Kingfisher	30

(*) Options are not included in orders booked or year-end backlog.

Organisation of Airbus

Integration of the Airbus Activities

EADS has an 80% interest in Airbus S.A.S., and has effective management control over its operations, while BAE Systems, holding the remaining 20%, enjoys specific minority rights. Certain strategic decisions, such as acquisitions and divestitures valued at more than U.S.\$500 million, approval of the three-year Business Plan (but not the annual budgets or the launch of new programmes) as well as certain actions which would dilute the ownership interest of BAE Systems in Airbus S.A.S., require unanimous agreement.

Following the integration of Airbus in 2001, the shareholders of Airbus agreed to grant BAE Systems an option to sell its Airbus S.A.S. shares at market value to EADS, either for cash consideration or in exchange for EADS shares, as determined by EADS. However, BAE Systems may elect to receive cash where the issue of EADS shares would require prior burdensome regulatory authorisations impacting significantly the allocation of the EADS shares. EADS benefits from a call option at market value on the Airbus S.A.S. shares in case of a change of control of BAE Systems in certain circumstances. Likewise, under certain circumstances, BAE Systems can require EADS to purchase its Airbus S.A.S. shares at market value in the event of a change in control of BAE Systems or EADS.

Beginning with the 2003 financial year, BAE Systems became entitled to receive enhanced dividends, subject to deliveries of A340-500/600 aircraft exceeding an agreed target rate. The enhanced dividends, which are indexed to Airbus’ future growth, could represent a non-indexed value from zero up to a cap of €237.5 million (based on current economic conditions) over the following ten years.

Shareholder and strategic matters relating to Airbus S.A.S. are decided by a shareholders’ committee, to which EADS has appointed five members and BAE Systems two members. Mr. Noël Forgeard, Chief Executive Officer of EADS, is the chairman of the Shareholders’ Committee. Mr. Gustav Humbert, as President and Chief Executive Officer of Airbus S.A.S., is responsible for the operational management of the Airbus business, together with the Executive Committee, consisting of himself and up to ten other members, two of whom are members proposed by BAE Systems, all of whom are agreed upon by the President

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and Chief Executive Officer of Airbus S.A.S. and appointed by the Shareholders' Committee.

As a consequence of its majority interest in Airbus S.A.S. and of the control provided by the shareholders' agreement related to Airbus S.A.S., EADS consolidates 100% of the integrated Group in its financial statements as from 1st January 2001.

Products and Services

Technological Breakthroughs

Technological innovation has been at the core of Airbus' strategy since its creation. Many of the innovations that provided a distinct competitive advantage have subsequently become standard in the aircraft industry.

A300 — The A300 was the world's first twin-engine twin aisle commercial aircraft. This feature gave it a distinctive advantage in terms of fuel burn and maintenance costs over its three-engine and four-engine competitors for the short and medium range. The A300 B4, a derivative of the original A300, was the first twin aisle commercial aircraft certified for a two-member flight crew, resulting in lower operational costs as compared to three-member crew operated aircraft which was the industry standard at the time.

A310 — The A310, brought to the market in 1983, featured the first digitally imaged cockpit displays, using cathode ray tubes as opposed to the traditional mechanical display. This made it possible to provide the pilot with improved flight and navigation displays and unique centralised, easy access aircraft monitoring. The implementation of automated systems and the integration of Digital Flight Guidance both helped to further improve safety levels.

New efficient aerodynamic concepts were also introduced, such as a supercritical airfoil and the high aspect-ratio transonic wing, which brought a significant improvement in fuel burn. Carbon fibre reinforced composite materials were introduced for major structures such as the vertical fin and rudder, with significant weight savings as compared to aluminium, resulting in increased payload capability. The installation of a trim tank in the horizontal stabiliser increased operators' savings significantly by optimising aircraft attitude during the flight.

A320 — Airbus was the first to introduce digital fly-by-wire controls with the A320 in 1988, introducing pilot commands

through a side stick controller instead of the traditional control column. Flight-control computers translate these commands into electrical signals for the moving surface actuators and, at the same time, can prevent the aircraft going beyond the prescribed safe flight envelope. Compared to the traditional mechanical flight controls, this brought increased manoeuvrability, simplified operations through digital link-up with the autopilot system and weight reduction. The fly-by-wire concept is now featured on all A320 Family aircraft as well as the A330/A340 Family. Airbus' U.S. competitors did not introduce fly-by-wire controls for civil aircraft until later. Composite materials have been extended in the A320 to the horizontal tail plane.

A330/A340 — Four models of this twin aisle family feature wing commonality for two and four-engine variants of an otherwise similar airframe — a unique concept that permits each model to be optimised around different market requirements. The ultra-long-range A340-500/-600 feature a larger wing and introduce further breakthroughs in the use of weight saving composite materials for a large primary structure (the 15m-long keel beam and rear cabin pressure bulkhead).

A350 — The 'sister ship' of the A380, the A350 is Airbus' response to perceived customer demand. The A350, which is in the early stages of development, will exploit technologies developed and studied for the A380. Available in two versions, the A350 will have 90% new part numbers, a new landing gear, a cockpit derived from the A380 and a number of other innovations including the extensive use of composites and aluminum-lithium (including, for example, a composite wing), raising the use of new light weight materials to 60%. Nevertheless, the A350 will retain full operational commonality with the rest of the Airbus aircraft family. The A350 is intended to offer more seats, more range, a lower fuel burn per seat and a lower cash operating cost per seat than the competition.

A380 — The very large aircraft will bring further development of advanced technologies and allow for their broader application. Approximately 25% of the aircraft structure is to be manufactured using carbon composites and advanced metallic hybrid materials, while innovative manufacturing techniques such as laser beam welding will eliminate fasteners, reduce weight and provide enhanced fatigue tolerance.

The Family Concept – Commonality across the Fleet

Airbus' four aircraft families promote fleet commonality. This philosophy takes a central aircraft and tailors it to create derivatives to meet the needs of specific market segments. This approach means that all new-generation Airbus aircraft (i.e., excluding A300/310) share the same cockpit design, fly-by-wire controls and handling characteristics. Pilots can transfer among any aircraft within the Airbus family with minimal additional training. Cross-crew qualification ("CCQ") across families of aircraft provides airlines with significant operational flexibility.

This commonality philosophy to reduce development costs also permits aircraft operators to realise significant cost savings in crew training, spare parts, maintenance and aircraft scheduling.

The extent of cockpit commonality within and across families of aircraft is a unique feature of Airbus that, in Management's opinion, constitutes a sustainable competitive advantage.

Short- and medium-range single aisle aircraft: the A320 Family. Airbus' family of single aisle aircraft, based on the A320 (which entered service in 1988 following a development programme launched in 1984), includes the A318, A319 and A321 derivatives, as well as the A319-based Airbus Corporate Jetliner, a business jet derivative, which Airbus launched in June 1997.

At 3.96 metres diameter, the A320 Family has the widest fuselage cross-section of any competing single aisle aircraft. This provides a roomy passenger cabin, a high comfort level and a more capacious underfloor cargo volume than its competitors. The A320 Family incorporates digital fly-by-wire controls, an ergonomic cockpit and a lightweight carbon fibre composite horizontal stabiliser, derived from the A310-300. The use of composite has also been extended to the vertical stabiliser. The A320 Family's competitors are the Boeing 737, 757 and 717 aircraft.

The A318. The A318 aircraft is a shortened version of the A319, designed to satisfy demand for aircraft in the 100 to 120-seat range.

Single Aisle Technical Features

Model	Entry into service	Passenger capacity*	Maximum range (km)	Length (meters)	Wingspan (meters)
A318	2003	107	6,000	31.4	34.1
A319	1996	124	6,800	33.8	34.1
A320	1988	150	5,700	37.6	34.1
A321	1994	185	5,600	44.5	34.1

(*) Two-class layout.

In 2005, Airbus received 918 orders for A318, A319, A320 and A321 aircraft and delivered 289 A320 Family aircraft.

Short- and medium-range twin aisle aircraft: the A300 / A310. The A300 / A310 aircraft were the initial models of the Airbus product line and are designed for short-and-medium range routes. The A300, which entered into service in 1974, was the world's first twin aisle, twin-engine aircraft. Its current version A300-600 is also available in freighter and convertible passenger-freighter configurations, in service with both Federal Express and UPS.

In 1988, Airbus introduced the extended-range A300-600R, which incorporated the lightweight carbon fibre composite horizontal stabiliser developed for the A310. The A310, which was based on the A300, entered into service in 1983, and introduced the first electronic cockpit in civil aviation history.

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A300/A310 Technical Features

Model*	Entry into service	Passenger Capacity**	Maximum range (km)	Length (meters)	Wingspan (meters)
A300	1974	266	7,500	54.1	44.8
A310	1983***	220	9,600	46.7	43.9

(*) All versions of A300/A310 including freighters.

(**) Two-class layout.

(***) Airbus has announced in March 2006 that the last A300-600 will be delivered in July 2007.

In 2004, Airbus received two orders for A300 and A310 aircraft and delivered 12 A300 and A310 aircraft.

Medium to ultra-long-range twin aisle aircraft: the A330 / A340 Family. Airbus developed the twin-engine A330 and long-range four-engine A340 as a joint programme, using the same wing design for both aircraft and retaining the fuselage cross section of the existing A300/A310 to offer comprehensive and economic medium to ultra-long-range route coverage.

The competitors of this family are the Boeing 767, 777 and 747 aircraft.

A330/A340 Technical Features

Model*	Entry into service	Passenger capacity*	Maximum range (km)	Length (meters)	Wingspan (meters)
A330-200	1998	253	12,500	59.0	60.3
A330-300	1994	295	10,500	63.7	60.3
A340-200	1993	240	14,800	59.4	60.3
A340-300	1992	295	13,700	63.7	60.3
A340-500	2002	313	16,700	67.8	63.6
A340-600	2002	380	14,600	75.3	63.6

(*) Three-class layout.

In 2005, Airbus received 79 orders for A330 and A340 aircraft and delivered 80 A330 and A340 aircraft.

Very large aircraft: the A380 Family. In 2004, Airbus estimated worldwide passenger traffic would grow at a sustained average annual rate of 5% during the 2004-2022 period, leading to two concurrent trends: rising fragmentation of a portion of the marketplace, characterised by the development of new markets, higher frequency on thinner routes and hub by-passing; and consolidation of the rest of the market, resulting in the concentration of the hub-to-hub traffic and hub-dominated traffic, typical of alliance networks. See “— Market”. Following five years of intensive pre-development with airlines, airports and regulatory authorities throughout the world, Airbus has defined a

In 1997, Airbus began development of the ultra-long-range A340-500 and the high capacity A340-600 derivatives. The A340-500 is intended to offer more point-to-point routings over extremely long ranges. It is designed to allow non-stop flights such as Los Angeles — Singapore or Chicago — Auckland. The A340-600 made its first flight in April 2001 and deliveries began in July 2002.

very large aircraft, the A380, to best serve the needs of the consolidated hub-dominated market.

2005 was a significant year from an industrial and programme point of view with the ‘reveal’ of the A380, and the first flight on 27th April 2005.

At year-end 2005, Airbus had received a total of 159 firm orders for the A380 from leading world airlines.

The cost of developing the A380 programme, initially projected at U.S.\$10.7 billion, covers both R&D expenses and tooling for various versions of the A380. This estimate does not include certain infrastructure elements or general and administrative expenses.

Management presently intends to finance the programme by:

- Maximising contributions from risk-sharing partners, who have been found for up to U.S.\$3.1 billion of non-recurring costs; and
- Applying reimbursable launch investments from governments in compliance with the 1992 U.S.-Europe bilateral agreement and all other applicable regulations, estimated by Management at about U.S.\$2.5 billion under current assumptions; France, Great Britain and Spain have already committed, and Germany has agreed in principle, to such investments. See “— Market — Cyclical and Market Drivers — Governmental Funding”.

When deciding to launch the programme, Management set itself a 20% pre-tax internal rate of return target, together with a project break-even point of approximately 250 aircraft. It is satisfied that the terms and conditions presently agreed with its customers corroborate the business case.

Final assembly of the A380 takes place in Toulouse, while interior furnishing and customisation will be performed in Hamburg. The fuselage sections are being produced at the same sites in France and Germany as current Airbus aircraft. The wings are being produced at facilities in the U.K., while the horizontal stabiliser and other parts are being produced in Spain.

New Product Development: A400M

Airbus' Military Programme Directorate, headed by Mr. Juan Carlos Martinez Saiz, performs research and development related to the A400M project as an outsource provider to Airbus Military S.L. The Military Transport Aircraft A400M is described in “— 1.1.3 Military Transport Aircraft — Products — Military Transport Aircraft / Special Mission Aircraft on Transport Aircraft Platforms — Airbus A400M”.

Asset Management

The Airbus Asset Management Division was set up in 1994 to manage and re-market used aircraft acquired by Airbus, originally as a result of customer bankruptcies, and subsequently in the context of certain buy-back commitments. The Division operates with a dedicated staff and manages a fleet comprised of Airbus aircraft across the range of models. Through its activities, the Asset Management Division helps Airbus respond more efficiently

to the medium and long-term fleet requirements of its customers.

Its key roles comprise the commercial and risk management of the Airbus portfolio of used aircraft. Most of the aircraft are available to customers for cash sale, while some can only be offered on operating lease, depending on the financing attached to such aircraft. At the end of 2005 the Airbus Asset Management portfolio contained 31 aircraft, a net reduction of 16 aircraft compared to the end of 2004. The Asset Management Division also provides a full range of support services, including assistance with entry into service, interior reconfiguration and maintenance checks.

Sales Finance

Airbus favors cash sales, and does not envisage sales financing as an area of business development. However, Airbus recognizes the commercial need for manufacturers to assist customers in arranging financing of new aircraft purchases, and in certain cases to participate in such financing itself. Extension of credit or assumption of exposure is subject to corporate oversight and monitoring, and follows stringent standards of discipline and caution. Airbus' dedicated Sales Finance team has accumulated decades of expertise in aircraft finance. When Airbus finances a customer, the financed aircraft generally serve as collateral, with the engine manufacture participating in the financing. These elements assist in reducing the risk borne by Airbus. Airbus' sales financing transactions are designed to facilitate subsequent sell-down of the exposure to the financial markets, third party lenders or lessors. Airbus' financing exposure is counter-cyclical and currently Airbus is able to conclude significant sell-down of its exposure. Management believes, in light of its experience, that the level of provisioning protecting Airbus from default costs is adequate and consistent with standards and practice in the aircraft financing industry. See “Part 1 / 1.1.7.4 Sales Financing”.

Customer Service

Airbus is dedicated to assisting customers with the operation of their Airbus fleets as efficiently as possible. With respect to aircraft operation, the Airbus Customer Services directorate heads an engineering and technical support group, a technical documentation organisation, a network of training

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centres, spare parts stores and teams based at customer airlines. Through this single interface, Airbus aims to satisfy all of its customers' pre-delivery and in-service support requirements, including (1) engineering and technical support, (2) training and flight operations support and (3) material support.

Engineering and technical support provides Airbus operators with technical assistance on a 24-hour basis to ensure safe and reliable operations of their Airbus fleet. Customised cost reduction programmes are designed to reduce customers' maintenance costs to optimised levels.

The training and flight operations support service includes a permanent staff of over 200 instructors around the world to provide accessible and up-to-date training for Airbus flight and ground crews. Airbus has four training centres, one in Toulouse, France, one in Hamburg, Germany, one in Miami, U.S. and one in Beijing, China. A co-operation agreement with Canadian Aviation Electronics Ltd ("CAE") has enlarged this network by 13 additional training locations world-wide. As part of its training services, Airbus offers Cross Crew Qualification programmes enabling pilots to take advantage of the high degree of commonality between Airbus aircraft families, representing considerable savings to airlines.

Airbus' spares support centres stock over 120,000 different part numbers, serving a worldwide distribution network from Hamburg, Frankfurt, Washington, D.C., Singapore and China. The 24-hour aircraft-on-ground service usually dispatches in-stock items within two hours of receipt of an order. A range of modular spares services is offered to the airlines to help them reduce costs by identifying and eliminating deficiencies in the supply chain.

Production

Industrial Organisation

Airbus aircraft are produced using an efficient and flexible system that has optimised the specialised skills developed during the last three decades. Each task in the building of the Airbus aircraft (from design, definition and production to product or operational support) is allocated to industrial sites according to their specialised expertise. The nurturing and development of centres of excellence, although a legacy

of the past, constitutes an original and competitive feature of Airbus manufacturing.

Engineering

Airbus engineers work on specific and non-specific aircraft designs to create solutions that ensure the company remains a market leader. Using an innovative working practice, known as Airbus Concurrent Engineering ("ACE"), teams are able to work together effectively in real time, regardless of geographical location.

Engineering innovation at Airbus is driven by five Centres of Competence ("CoCs"), which develop general aircraft technologies and provide functional design leadership for specific aircraft components. The CoCs operate trans-nationally with engineers from each CoC present at all Airbus sites.

Airbus engineers have also developed "Colleges of Experts" — teams of the most experienced specialists in each discipline that provide guidance and advice at senior levels. This approach not only delivers design solutions to meet the highest standards of technical quality and performance, but also ensures that both individual and collective knowledge is nurtured throughout the CoCs.

The engineering teams are supported by system tests and integration laboratories, structural test centres and the Airbus flight test centre.

This approach has enabled Airbus to open engineering centres in Wichita (Kansas), U.S., in Moscow, Russia, and in Beijing, China, through which it has gained access to a large pool of experienced aerospace engineers. The Wichita engineering centre began operations in early 2001 and has already made a significant contribution to Airbus wing design. The engineering centre in Russia, organised as a joint venture with Kaskol, was inaugurated at the end of 2002 and the engineering centre in China was inaugurated in late 2005. A fourth engineering centre is expected to open in Mobile (Alabama), U.S. in 2006.

Manufacturing Facilities and Production Flow

Airbus has established highly specialised centres of excellence ("CoE") based on the core competencies of each site within its field of expertise. The CoEs are responsible

for the design, procurement and manufacturing of fully equipped and tested deliverables, ranging from specific parts to major aircraft components.

The eight CoEs are (1) CoE Nose and Centre Fuselage at Toulouse, St. Nazaire, Nantes and Meaulte (France); (2) CoE Forward and Aft Fuselage at Hamburg, Nordenham, Bremen and Varel (Germany); (3) CoE Pylon and Nacelle at Toulouse-St. Eloi (France); (4) CoE Vertical Tailplane (VTP) at Stade (Germany); (5) CoE Cabin and Cargo Customisation at Hamburg, Bremen, Buxtehude and Laupheim (Germany) and Toulouse (France); (6) CoE Horizontal Tailplane and Belly Fairing (and certain sections of the A380) in Getafe, Illescas and Puerto Real (Spain); (7) CoE Electrics in Filton (U.K.), Hamburg (Germany) and Toulouse (France); and (8) CoE Wing in Broughton and Filton (U.K.), with a satellite design office in Wichita, Kansas (U.S.).

The CoEs deliver their specific components to one of the two Airbus final assembly line sites. Toulouse is responsible for the final assembly of the A300/A310 Family, A320, A330/A340 Family and A380 Family, while Hamburg is responsible for the final assembly of the A318, A319 and A321, as well as for the major component assembly and interior furnishing for the A380 customization.

Aircraft components are transferred between the network of CoE sites and the final assembly lines using Airbus' five custom built A300-600 "Beluga" Super Transporters. To support the A380 production flow, Airbus has integrated road, river and sea transport, including the specially

commissioned "Ville de Bordeaux" ship. Typical production lead times for single-aisle aircraft are 8-9 months, and 12-15 months for long-range twin-aisle aircraft.

Adaptability to Changes in Demand

Airbus delivered 378 aircraft in 2005 (compared to 320 in 2004) and expects to deliver more than 400 aircraft in 2006. Any major market disruption or economic downturn could lead to revision of these figures.

To meet its 2006 delivery target, Airbus has set various elements of its adaptable manufacturing process in motion; these include enhanced integrated intelligence of customer and market situation to provide early anticipation, repatriation of an array of outsourced tasks and adaptation of make or buy criteria. Additionally, Airbus is exploiting flexibility features of its labour structure by applying flexible time and overtime contractual provisions, and by optimising temporary and time-defined workforce. This allows Airbus to increase adaptability without paring the experienced and trained workforce which Management considers a most valuable Airbus asset to sustain long-term growth.

Airbus' unique manufacturing flexibility is imbedded within the organisation, implementing lessons learned from previous downturn.

1.1.3 Military Transport Aircraft

Introduction and Overview

The Military Transport Aircraft Division (the "MTA Division") develops, manufactures and sells light and medium military transport aircraft and is responsible for the European heavy military transport A400M project. Additionally, the MTA Division produces and sells special mission aircraft, which are derived from existing aircraft

platforms and are dedicated to specialised military tasks such as maritime surveillance, antisubmarine warfare and in-flight refuelling capabilities. The MTA Division also designs and manufactures aerostructure elements.

The MTA Division earned consolidated revenues of €763 million, accounting for 2% of EADS' total consolidated revenues for 2005.

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Strategy

The MTA Division's strategic goals are to develop its core businesses, to leverage the EADS pool of technologies to gain share within its markets and to enhance profitability. To achieve these goals, the MTA Division has implemented a focused, two-pronged strategy to:

Consolidate its leadership position and address the growing demand for modern tactical military transport aircraft

EADS is the global leader in the market segments for light and medium-sized military transport aircraft. Through the addition of the A400M heavy transport aircraft, EADS expects to broaden its range of tactical military transport aircraft and to capture a market with high replacement potential that Lockheed Martin has historically dominated.

Optimise EADS' capabilities to become a major supplier of military derivatives

The MTA Division relies on its own specialised technologies as well as those of the DS Division and on EADS' wide range of platforms to promote aircraft satisfying customers' mission-specific requirements.

Market

Military Transport Aircraft

Governments and multinational organisations constitute the MTA Division's principal customers in the market for tactical military transport aircraft. This market consists of three segments: (1) light transport aircraft, with a payload of one to four tons, (2) medium transport aircraft with a payload of five to 14 tons; and (3) heavy transport aircraft with a payload of 15 tons or more. According to a study by the Teal Group, an independent aerospace and defence industry consulting firm, the global market for military transport aircraft for the next ten years will amount to an estimated U.S. \$46 billion.

Light Military Transport - This is a mature market that has diminished in size as countries develop economically and are able to afford medium military transport aircraft. The CASA C-212 has historically led this market segment, with an

average market share of 15% over the last ten years.

The C-212's main competitors are manufactured by Polskie Zakłady Lotnicze, Mielec, Socata and HAL.

Medium Military Transport - Management believes that this market will continue to experience moderate growth. EADS models are prominent in this market segment, with the CN-235 and C-295 models having an average market share of 45% over the last ten years, followed by their competitors, the C-27J produced by Lockheed Martin Alenia Tactical Transport System ("LMATTS"), a joint venture of Alenia and Lockheed, and the An-32 produced by Antonov.

Heavy Military Transport - This market segment has historically been driven by U.S. policy and budget decisions and hence has been dominated by U.S. manufacturers and in particular, Lockheed Martin's C-130 Hercules. While the U.S. is reducing and upgrading its existing fleet, European transport fleet replacement and growth needs represent an opportunity for the new A400M aircraft to effectively compete in this market.

EADS has chosen thus far not to compete in the separate market segment for super-heavy, strategic airlift aircraft, to which the Boeing C-17 belongs.

Special Mission Aircraft

Special mission aircraft are derived from existing platforms and adapted to particular missions, generally for military customers. According to a study by Forecast International, the market for military derivatives for the next ten years will amount to an estimated U.S. \$42 billion. It is a market of advanced technology and high added value solutions where customers are increasingly demanding comprehensive systems tailored to their respective operational requirements. Modern defence and warfare increasingly require independent access to complex forms of information in various theatres of operations. This development and Europe's unsatisfied defence needs are expected to boost demand for European-produced mission aircraft in the near term. The MTA Division is well-positioned in this market, as it has access, through Airbus, to efficient platforms that are already well-established in the civil market. However, U.S. companies currently dominate this market.

Because of the limited size of any single European market and the significant associated development costs, mission aircraft

programmes in Europe tend to be funded and developed on a multinational basis, with an emphasis on proven technologies. EADS believes its strong position in Europe will allow it to exploit opportunities on a worldwide basis.

Products

Military Transport Aircraft/Special Mission Aircraft on Transport Aircraft Platforms

C-212 - Light Military Transport. The C-212 was conceived as a simple and reliable unpressurised aircraft able to operate from makeshift airstrips and carry out both civilian and military tasks. The first model in the series, the S-100, entered into service in 1974. With a payload of 2,950 kg, the new version of the C-212, the Series 400, entered into service in 1997. It incorporates improvements such as new avionics and engines for enhanced performance in hot climates and high altitudes, as well as improved short take-off and landing (“STOL”) performance. The C-212’s rear cargo door provides direct access for vehicles, cargo and troops. Its configuration can be changed quickly and easily, reducing turnaround times. The aircraft can perform airdrops and other aerial delivery missions.

CN-235 - Medium Military Transport. The first model in the CN-235 family, the S-10, entered into service in 1987. The latest model in the CN-235 family, the Series 300, entered into service in 1998 and is a new-generation, twin turboprop, pressurised aircraft. The CN-235-300 is capable of transporting a payload of up to 6,000 kg, representing (1) 48 paratroopers; (2) 21 stretchers plus four medical attendants; (3) four of the most widely used type of freight pallet; or (4) oversized loads such as aircraft engines or helicopter blades. Paratroop operations can be performed through the two lateral doors in the rear of the aircraft or over the rear ramp. Variants of the CN-235-300 are used for other missions, including maritime patrol, electronic warfare and photogrammetric (mapping) operations. One CN-235 was delivered (to Ecuador) in 2005.

C-295 - Medium Military Transport. Certified in 1999, the C-295 has the basic configuration of the CN-235, with a stretched cabin to airlift a 50% heavier payload at greater speed over similar distances. The C-295 is equipped with integrated avionics incorporating digital cockpit displays and flight management system, enabling tactical navigation,

planning and the integration of signals from several sensors. Both the CN-235 and C-295 have been designed as complements to or replacements for ageing C-130 Hercules, accomplishing most of their missions at a lower operating cost; specialising the C-130 for heavier cargo transport only extends its service life.

Ten C-295s were delivered (six to Algeria, three to Poland and one to Spain) during 2005. On 29th April 2005, the MTA Division announced a €258 million contract with Brazil for the delivery of 12 C-295 aircraft to replace the ageing C-115 Buffalo. These aircraft are intended to enable the Brazilian Air Force to support activities related with the Amazon Protection System (SIVAM) and the Calha Norte Project, fundamentally social activities, to support people in remote areas of the Amazon with difficult access to other means of transportation. In addition, a contract for the delivery of one C-295 aircraft was signed in 2005 with the Spanish Ministry of Defence (“MoD”).

Future Cargo Aircraft (“FCA”). During 2005, EADS CASA North America and Raytheon established a partnership to bid for the U.S. Army’s FCA programme. Under the FCA programme, the U.S. Army plans to procure more than 100 FCA, with an initial phase of 33 aircraft. The contract is expected to be awarded in 2007.

As of 31st December 2004, 774 medium and light military transport aircraft had been ordered by 121 operators in 55 countries.

Maritime Patrol Aircraft. The MTA Division provides different solutions ranging from Maritime Surveillance to Anti-Submarine Warfare through aircraft based on the C-212, CN-235, C-295 or P-3 Orion platforms, for which EADS has already developed a new-generation, open architecture mission system called FITS (Fully Integrated Tactical System), a proven, reliable and cost efficient solution.

The contract signed in February 2004 with Lockheed Martin in the Deepwater Programme for the U.S. Coast Guard remains on schedule and the first delivery is planned during 2006.

On 29th April 2005, a contract for the modernisation of the fleet of eight P-3 Orion was also signed between Brazilian Government and EADS-CASA. Brazil has purchased the mission system FITS (Fully Integrated Tactical System) for the modernisation of its P3-Orion that would be performed

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by EADS-CASA in collaboration with local Brazilian partners.

After the initial agreement in December 2004, a formal contract with SASEMAR, a parapublic agency, was officially signed in April 2005 for the purchase of three CN-235 maritime patrol aircraft for sea rescue and pollution control missions. Delivery of the first aircraft is planned for 2007.

During 2005, the MTA Division delivered two C-212 aircraft with mission systems to Mexico and one CN-235 maritime patrol aircraft to Ecuador.

Airbus A400M. The A400M is designed to meet the Future Large Aircraft requirements set out by seven European nations to replace their ageing C-130 Hercules and C-160 Transall fleets. In addition to fast and flexible intercontinental force projection, the new aircraft is intended to respond to changing geopolitical requirements (including increased humanitarian and peacekeeping missions).

The A400M will integrate a number of features from existing Airbus aircraft, including a two-person cockpit, fly-by-wire controls and advanced avionics. Additionally, the A400M will benefit from Airbus' maintenance procedures and worldwide customer support network.

Airbus Military is a Spanish *sociedad limitada* dedicated to the development, manufacture and delivery of the A400M aircraft. Shares in Airbus Military are currently held by Airbus S.A.S (69.44%), EADS CASA (20.56%), Tusas Aerospace Industries Incorporated of Turkey (5.56%) and Flabel Corporation NVSA of Belgium (4.44%). The Executive Vice President in charge of the MTA Division also acts as Chief Executive Officer of Airbus Military, bringing the MTA Division's experience in the management of military transport aircraft programmes and its extensive client network to the A400M programme.

Airbus Military has subcontracted to Airbus the overall management of the A400M development, to be exercised through a central programme management office ("CPMO") headquartered in Toulouse with additional offices in Madrid. For the production phase of the A400M programme, to be managed by the MTA Division, the CPMO will be headquartered in Spain.

In May 2003, the *Organisation Conjointe en Matière d'Armement* ("OCCAR") signed a contract with Airbus

Military to order 180 A400M aircraft, mandated by seven nations: Belgium committed to eight aircraft (including one on behalf of Luxembourg), France to 50, Germany to 60, Spain to 27, Turkey to ten, and the U.K. to 25.

Management believes that the A400M programme will allow EADS to leverage its state-of-the-art commercial aircraft technology to access a new and attractive market, while mitigating the impact of civil aircraft market commercial cycles.

During 2005, an important internal milestone was passed successfully. The overall programme's development remains on schedule and the completion of the final assembly line for the A400M in Seville is expected to be reached in the first half of 2007.

Efforts to win export contracts for the A400M yielded several successes during 2005. After the signature of a declaration of intent with the South African government in December 2004, the contract was officially signed in April 2005. The total maximum value of the contract for eight aircraft as well as options is €836 million. On 8th December 2005, the Malaysian government signed a contract for the purchase of four A400M.

In addition to the initial 180 aircraft, these export orders bring the total order book for the A400M aircraft to 192.

Special Mission Aircraft on Airbus Platforms

The MTA Division offers special mission aircraft derived from existing Airbus platforms and adapted to particular missions, generally for military customers. Adaptations to the platform require thorough knowledge of the basic airframe, which generally only the aircraft manufacturer possesses. The skills necessary for overall systems integration into such aircraft are extensive and the number of participants on the world market is very limited.

Strategic Tanker Aircraft. EADS seeks to provide a competitive alternative to the near-monopoly currently enjoyed by Boeing products in the market for strategic tanker aircraft. This should help to ensure Europe's ability to set up projects independently. In light of the estimated worldwide market of approximately 550 tanker aircraft, Management believes that strategic tanker aircraft offer an attractive opportunity for EADS.

The MTA Division leads a technological programme developing a new “air-to-air” refuelling boom system (“**ARBS**”) that is designed to ensure a refuelling performance two to four times faster than that of the competition - a considerable advantage as aircraft are very vulnerable during the refuelling procedure. The refuelling boom was installed on the test rig in November 2004 and on 23rd December 2005, the roll-out of an A310 demo boom took place at the Getafe facilities. Flight tests with this A310 demo boom were to be realised during the first quarter 2006.

A330 MRTT (Royal Australian Air Force) - The contract signed on 20th December 2004, with the Royal Australian Air Force for the delivery of five A330 multi-role tanker transports (“**MRTT**”) equipped with ARBS to replace its existing Boeing 707 fleet remains on schedule. Delivery of the first A330 MRTT to Australia - based on the A330 derivative, a low-risk and cost-effective platform that offers a greater supply capacity than other competing solutions- is scheduled for 2008, with entry into service planned for 2009.

A330 Future Strategic Tanker Aircraft (FSTA) (United Kingdom Royal Air Force) - EADS, Rolls Royce, Cobham, VT and Thales are cooperating through the AirTanker consortium as the single bidder for the U.K. MoD’s Future Strategic Tanker Aircraft (“**FSTA**”) programme. Likely to be structured as a Private Finance Initiative, this programme would replace ageing VC10 and Tristar tankers, currently operated by the Royal Air Force, with a system based on the long-range family of Airbus aircraft. The programme will provide for the delivery of 14 aircraft to render the air refuelling service for 27 years. The MTA Division’s participation in the programme will amount to approximately €2 billion.

KC-30 Tanker Programme (U.S. Air Force) - Management views the KC-30 programme for the replacement of the ageing U.S. fleet of strategic tanker aircraft as a market opportunity. A capture team has been established to act on the KC-30 advance tanker campaign for the U.S. Air Force next generation air-to-air refuelling

aircraft. EADS has joined with Northrop Grumman (as prime contractor) on the KC-30 advance tanker bid.

A310 MRTT (German Air Force / Canadian Air Force) - In its entirety, the programme involves four aircraft for the German Air Force and two aircraft for the Canadian Air Force. In 2005 two A310 MRTT were delivered, the second one to the German and also the second one to the Canadian Air Force.

Alliance Ground Surveillance (“AGS”). Within the framework of NATO, several countries have expressed interest in the development of an Airborne Surveillance System. MTA’s role in this programme is to perform the “militarization” of the A-321 platform, with the DS Division acting as the prime contractor.

Aerostructures

EADS-CASA has longstanding tradition of expertise in the utilisation of composite materials for aerostructure manufacturing and advanced automation processes.

Based on its expertise, the MTA Division is actively involved in the design, manufacture and certification of complex aeronautical structures. During 2005, the MTA Division delivered, among other structures, fan cowls for the A340 and the first fan cowls for the A380.

Production

The C-212, CN-235 and the C-295 are manufactured in the factory located within the San Pablo Airport in Seville. Aerostructures are produced in Cádiz and at the Tablada facilities as well as San Pablo plant; both in Seville.

1.1.4 Eurocopter

Introduction and Overview

Through Eurocopter, EADS is one of the global leaders in the worldwide civil and military helicopter market. Management expects Eurocopter sales in the military market to increase substantially due to the start of delivery of the Tiger attack helicopter, the strong backlog for the NH90 military transport helicopter with a number of European governments and the increasing demand in international military and para-military export markets. In 2005, Eurocopter maintained its leadership by capturing more than 50% of the civil market in terms of deliveries and by achieving a strong growth in its military order book.

For 2005, the Eurocopter Division earned consolidated revenues of €3.2 billion, representing 9% of EADS' total revenues.

Strategy

The Eurocopter Division aims to further develop businesses and markets identified by Management as having the potential for continued growth. To this end, Eurocopter is actively:

Fostering internal growth and international expansion

Management intends to further develop Eurocopter's presence in emerging markets such as China, India and Eastern Europe and to bolster its position in traditionally inaccessible markets such as the South Korean, U.S. and U.K. military markets. To do so, Eurocopter will continue to capitalize on its proven experience of cooperation with local industries for program development and joint production projects. This approach has enabled Eurocopter to build solid foundations in rapidly growing markets. Eurocopter will also continue to pursue its industrial deployment strategy in the United States, where it already has two industrial and services facilities. In support of Eurocopter's international expansion, more than 20% of its employees work outside of the Division's home countries of France, Germany and Spain.

Implementing an intensive product and services policy designed to maintain its market leadership and technological superiority

The continuous renewal of Eurocopter's comprehensive product line of civil and military helicopters is essential in maintaining the Division's market leadership and technological superiority. Management intends to continue this process by (i) strengthening the market position of certain key products such as the Écureuil, the Dauphin, the EC 135 and the EC 145, (ii) emphasising Eurocopter's most recent products (e.g., entry into service and customization for export of the Tiger and NH90) and (iii) enhancing its product line (e.g., co-development of the medium lift EC175 with China; partnership with Korean industry to develop the military utility Korean Helicopter Industry ("KHP")). Eurocopter's comprehensive product line allows it to leverage core technological solutions with its high-value customization capabilities, in order to respond to the cost-driven mission needs of a wide array of civil and military customers throughout the segmented helicopter market.

One of Eurocopter's key competitive advantages is its technological excellence. To maintain its position as a technological leader, Eurocopter promotes technology initiatives, such as the Heavy Transport Helicopter and drones, and research programmes emphasizing technologies that enhance the operational scope of its aircraft. Eurocopter is currently focused on innovation in fields such as environmental-friendliness, all-weather flying ability and economic affordability throughout an aircraft's lifecycle.

Because customer service is an important component of customer satisfaction and source of revenue for the Division, Eurocopter remains committed to strengthening and expanding its network of marketing, distribution and support systems, through its 'global offer' proposal. The network currently serves approximately 9,500 Eurocopter aircraft with 2,500 operators located in 139 countries.

Market

In 2005, the value of helicopters delivered worldwide was estimated at over €7 billion; a figure Management expects may grow to €11 billion by 2010. According to market forecasts by The Teal Group, Honeywell and Rolls Royce, between 5,200 to 5,800 civil helicopters and 5,500 to 6,000 military helicopters are expected to be built globally from 2006 to 2015. This forecast, particularly with respect to the military segment, depends to a large extent on the future of large U.S. development programmes.

Military demand for new helicopters is principally driven by budgetary and strategic considerations, and the need to replace ageing fleets. Management believes that the advanced age of current fleets, the emergence of a new generation of helicopters equipped with integrated systems and the ongoing introduction of combat helicopters into many national armed forces will contribute to increased military helicopter procurement over the next several years. Recent large-scale military programmes, such as those conducted by Australia, Brazil, Spain and the Nordics Standard Helicopter Project have confirmed this trend. Demand from the military segment has historically been subject to large year-to-year variations, due to evolving strategic considerations.

Military helicopters, which are usually larger and have more sophisticated systems than commercial helicopters, accounted for 43% of the total value of Eurocopter deliveries in 2005.

The military segment is highly competitive and is characterised by competitive restrictions on foreign manufacturers' access to the domestic defence bidding process, sometimes to the virtual exclusion of imports. Consequently, Eurocopter's past share of the global market for military helicopters has been comparatively small. EADS aims to increase this share in the future with the

introduction of the Tiger and NH90 and with a more aggressive approach to international industrial cooperation.

In the military segment, Eurocopter's main competitors are AgustaWestland in Europe, and Bell Helicopter, Boeing and Sikorsky in the United States. Additionally, the Russian manufacturers and a number of U.S. and European domestic manufacturers compete in these markets.

The helicopters sold in the civil sector provide transport for corporate executives, offshore oil operations, diverse commercial applications and state agencies, including coast guard, police, medical and fire-fighting services. Management expects that the value of global civil deliveries will grow at an average rate of 3% in the next ten years. Market data indicates that in 2005, worldwide deliveries of civil turbine helicopters stood at approximately 580 units.

Eurocopter's main worldwide civil competitor is Bell Helicopter, a division of Textron Inc. of the United States. The civil helicopter market is relatively concentrated, with Eurocopter and Bell Helicopter accounting for approximately 75% of total civil helicopter sales in 2004.

Products and Services

Existing Products. Management believes that Eurocopter currently offers the most complete and modern range of helicopters, covering more than 85% of the overall civil and military market spectrum. Eurocopter's product range includes light single-engine, light twin-engine, medium and medium-heavy helicopters, and is based on a series of new-generation platforms designed to be adaptable to both military and civil applications. The product line is continuously updated with leading-edge technologies, assuring its modernity. The following table illustrates Eurocopter's existing product line:

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Helicopter Type	Typical Uses	Entry into Service
Light Single Engine		
EC120	Corporate / Private	1998
Single Engine		
AS350	Utility, Law Enforcement, Corporate / Private	1975
EC130	Shuttle, Tourism, Offshore, Corporate / Private	2001
Light Twin Engine		
AS355N	Parapublic*, Utility, Corporate / Private	1988
EC135 / EC635	Emergency Medical, Parapublic*	1996/2003
EC145	Emergency Medical, Parapublic*, Shuttle	2002
Medium		
Dauphin	Offshore, Parapublic*	1977
EC155	Corporate / Private, Offshore, Parapublic*, Shuttle	1999
Medium Heavy		
Super Puma / Cougar	Offshore, Shuttle	1980
MK II	Offshore, Shuttle	1993
EC225	Offshore, VIP	2004

(*) Parapublic includes law enforcement, fire fighting, border patrol, coast guard and public agency emergency medical services.

The Tiger. The Tiger combat attack helicopter programme development is nearing completion. It includes four variants based on the same airframe: the 40 HAP (turreted gun, rockets and air-to-air missile) for France; the 80 UHT (antitank missile, air-to-air missile, axial gun and rockets) for Germany; the 22 ARH (antitank missile, turreted gun and rockets) for Australia; and the 24 HAD for Spain and 40 HAD for France (antitank missile, air-to-air missile, turreted gun, rockets and upgraded avionics and engines). The manufacturing ramp-up of the programme is reflected by the delivery of 13 Tigers as of February 2006 (five to the German Army, four to the French Army and four to Australia). The new Spanish Tiger version HAD programme, boasting a fully multi-mission version of the Tiger, was initiated after the signing of a contract in November 2005 for 24 aircraft.

Civil range. In recent years Eurocopter has invested in the renewal of its civil product line to enhance its competitive position in the civil segment, with the result that its share of the world market currently stands above 50%. Eurocopter has successfully introduced into the international market such new products as the light single-engine EC120 and the light twin-engine EC135, and such major product upgrades as the EC155, the latest evolution of the medium-class Dauphin,

and the EC145, a derivative of the BK117. Deliveries of the EC130, the latest single-engine member of the Écureuil family, started in 2001.

EC225. The latest edition to the heavy-class family is the EC225. It is designed for passenger transport, in particular offshore and VIP, but also for public service missions, such as search and rescue (SAR). More than 30 orders for the EC225 and its military variant, the EC725, have been booked to date. In September 2005, European Aviation Safety Agency (EASA) awarded the EC225 helicopter an airworthiness certificate for unrestricted operations in icy conditions.

Products in Development. Current product development projects in the military segment include (1) the NH90, a military transport helicopter with different versions for tactical, naval and combat-search and rescue applications, and (2) the HAD version of the Tiger helicopter. Moreover, Management intends to commence new product development programmes in the near future in cooperation with Asian partners.

NH90. The NH90 was developed as a multi-role helicopter for both tactical transport and naval applications. The project, principally financed by the governments of France, Germany, Italy and the Netherlands, was jointly developed

by Eurocopter, AgustaWestland of Italy and Fokker Services of the Netherlands as joint partners in Nato Helicopter Industries (“NHI”) in direct proportion to their countries’ expressed procurement commitments. Eurocopter’s share of NHI is 62.5%. Production of the first lot of 243 helicopters and 55 optional helicopters to be delivered to the four partner countries started in 2000, with first deliveries expected in 2006. The NH90 high cabin version manufactured for the Swedish armed forces performed its maiden flight in 2005.

Designed for modern multi-mission capabilities and cost effectiveness throughout its lifecycle, the NH90 has rapidly become the reference military tactical helicopter for armed forces worldwide, selected by 18 services in 14 countries. In 2001, Portugal booked 10 NH90 helicopters; Finland, Sweden and Norway jointly ordered the NH90 (52 firm orders and 17 options); Greece ordered 20 aircraft in 2003, plus 14 options; in 2004, Oman ordered 20 NH90 TTH’s and Australia ordered 12 NH90’s (AIR 9000). Additionally, in the last twelve months, Spain, New Zealand and Belgium also selected the NH90 as their preferred helicopter for their upcoming acquisition programs. The NH90 has been selected by 11 countries and its backlog totals 357 firm orders and 120 options. The announced selections add 73 helicopters to the existing backlog.

Tiger HAD (Hélicoptère Appui Destruction). The HAD version of the Tiger is a multi-role combat helicopter. It is based on the Tiger HAP and incorporates a more powerful engine, an IFF interrogation function, a new ballistic protection and an air-to-ground missile (AGM) capability. The HAD is expected to be qualified in 2010, with deliveries between 2010 and 2014.

EC175. Eurocopter and Chinese AVIC II Corporation launched the joint development and production of the EC175, a civil helicopter in the 6-ton category, which will broaden both partner’s product ranges. The 5-year development phase will begin in early 2006. The new civil helicopter is due to make its first flight in 2009, with European and Chinese certification set for 2011, the year in which production is due to begin. Production will be shared on a 50/50 basis and each country will have its own assembly line. Sales forecasts for this latest-generation helicopter call for 800 units to be sold worldwide over the next 20 years.

KHP. The Korean government chose Eurocopter as the primary partner of Korea Aerospace Industries (“KAI”) in the new KHP programme for the development of Korea’s first military transport helicopter in the 8 metric ton class. The 6-year KHP development phase will run from 2006 to 2011. In the following 10-year production phase, 245 helicopters are to be manufactured. As the primary partner of KAI, Eurocopter has a stake of 30% in the development phase and 20% in the production phase. This programme is groundbreaking for Eurocopter in a previously American-dominated Korean market. Eurocopter and KAI have agreed to establish a 50/50 subsidiary to market the export version of the KHP, which has a forecasted worldwide demand of 250 helicopters over 20 years.

Customer Support

As of 31st December 2005, Eurocopter products constituted the world’s second largest manufacturer fleet, with 9,460 helicopters in service worldwide. As a result, customer support activities to service this large fleet generated 31% of Eurocopter’s revenues for 2005. Eurocopter’s customer support activities consist primarily of training, maintenance, repairs and spare parts supply. To provide efficient worldwide service, Eurocopter has established an international network of subsidiaries, authorised distributors and service centres. Furthermore, in order to meet globalizing customer demand, Eurocopter is dynamically extending the range of services it provides to its customers. For example, Eurocopter and Thales established HELISIM, a helicopter-training centre, which opened in 2002. In 2004, a consortium consisting of Eurocopter, CAE, Rheinmetall Defence Electronics and Thales was awarded the contract for the Helicopter Flight Training Services (HFTS), the first Private Finance Initiative (PFI) project to design, build and operate three NH90 training centres in Germany. The Eurocopter Training Academy will be officially established in 2006.

Customers and Marketing

Eurocopter’s principal military clients are European MoDs, as well as MoDs in Asia and the Middle East. Eurocopter’s penetration of the civil and parapublic market is globally well-distributed, and its penetration of the civil and

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parapublic market in Europe, the United States and Canada places it first among manufacturers in these markets.

Eurocopter's global strategy is reflected in the scale of its large international network. Eurocopter's network currently encompasses 16 foreign subsidiaries, complemented by a network of authorised distributors and service centres aimed at a large number of existing and potential clients.

Additionally, Eurocopter has developed expertise in production licensing, joint production and subcontracting agreements, and has been developing links with industrial partners and suppliers in more than 35 countries.

Approximately 2,500 operators worldwide currently operate Eurocopter helicopters, forming a broad established base for Eurocopter's customer support activities. Eighty-five percent of Eurocopter's customers have fleets of between one and four helicopters.

The versatility and reliability of Eurocopter products have made them the preferred choice of the most prominent customers. The U.S. Coast Guard operates 95 Dolphin (Dauphin) helicopters and the world's largest offshore operators (Bristow, CHC, Era and PHI) use Eurocopter helicopters for passenger transport and offshore oil industry

support. In the Emergency Medical Service market segment, Eurocopter helicopters dominate the fleets of large operators such as Air Methods in the U.S. and ADAC in Germany. Agencies with high serviceability requirements, including police and armed forces, rely on Eurocopter products.

Production

Eurocopter's manufacturing and development activities are carried out primarily in four locations, two in France and two in Germany. The French sites are located in Marignane, in southern France, and La Courneuve, near Paris. The German sites are located in Donauwörth and Ottobrunn, near Munich. With the ramping up of the Spanish HAD helicopter assembly line in Eurocopter's new Albacete plant, Spain is becoming the third industrial pillar of the Eurocopter Group.

The opening of an AS350 final assembly plant in Mississippi (targeting the U.S. parapublic sector) and of a Tiger final assembly line in Australia (relating to a specific Australian version under the AIR 87 programme) are further indications of Eurocopter's truly global presence and strategy of being close to its customers.

1.1.5 Defence & Security Systems

Introduction and Overview

The Defence & Security Systems Division ("DS" or the "DS Division") was created in 2003 to serve as the main pillar of EADS' defence and security activities. By combining EADS' Missile Systems (EADS' share in MBDA), Defence and Communications Systems (DCS), Defence Electronics (DE), Military Air Systems (MAS) (and EADS' share of the Eurofighter programme), as well as services activities within one division, EADS has focused its defence business to better meet the needs of customers requiring integrated defence and security solutions.

In its second full year of operation, the DS Division succeeded in expanding its cash flow and maintaining its EBIT* level over €200 million, mostly due to higher revenues driven by Eurofighter deliveries and MBDA programmes

while investing significantly further in UAV programmes, further streamlining businesses and improving capabilities in Large Systems Integration ("LSI"). An additional external growth potential will be achieved through acquisitions in the naval and professional mobile radio businesses. DS' portfolio of innovative products and integrated solutions that cover electronics, missiles, platforms, systems and services, is designed to meet growing and changing requirements for all military and security needs. DS intends to continue the process of strengthening its LSI role in EADS' Systems and Solutions provider concept by increasing its focus on core businesses and fostering further efficiencies and adaptations. Through these measures, the DS Division expects to contribute to EADS' overall objective of raising the percentage of revenues derived from defence from 25% to 30% over the next five years.

System Design Centre (SDC)

The System Design Centre supports defence and security customers in Concept Development and Experimentation (CD&E) with Modelling and Simulation (M&S) in a synthetic environment, providing system architecture design framework and relevant competencies to the DS BUs and the overall EADS Group. The SDC is installed in France, Germany and the U.K. and provides a transnational networked experimentation and test environment through its Network Centric Operations Simulations Centres (NetCOS). By applying standardised methods and tools, the DS Division's LSI strategy is put on a solid and interoperable basis.

On a consolidated basis, the DS Division generated revenues of €5.6 billion for 2005, representing 16% of EADS' total revenues.

2005 Highlights for the DS Division

Several factors contributed to DS' progress in 2005. Transatlantic programmes such as MEADS and NATO AGS received contracts, while the Eurofighter programme continued delivery of Tranche 1 to partner nations. Successes in Missiles Systems include MBDA's contract awards for Exocet and Aster, as well as deliveries of Storm Shadow, and the commencement of series delivery for LFK of the Taurus missile systems to the German Bundeswehr. Taurus also received its first export contract from Spain. In the U.K., the Atlas consortium, which includes the DS Division as a tier one member, won the contract for the U.K. MoD's defence information infrastructure (DII). The DS Division expanded its presence in the areas of naval business with the acquisition (subject to closing) of Atlas Elektronik - together with ThyssenKrupp Technologies - and the professional mobile radio (PMR) business with the purchase of Nokia's PMR business. In Missile Systems, the DS Division took decisive steps in integrating LFK into MBDA.

Strategy

With its new, integrated structure, the DS Division presents a more harmonised approach to its customers in answering to the trend towards capabilities-based procurement, while at the same time creating internal synergies and savings.

The DS Division is also moving beyond defence to security and has recognised that its customers increasingly require full-service packages and integrated solutions to support this transformation process. Another aim for the DS Division is to sustain growth by focusing on further cooperation with home market customers while fostering and developing transatlantic partnerships. A clear goal remains to increase global reach in developing markets, including Central and Eastern Europe, India, Asia and the South Pacific, and South Africa.

Streamlining and focusing the DS Division

The organisational structures of Defence and Communications Systems and Defence Electronics have been streamlined and Military Air Systems (which has been operating under the new name since January 2006) has considerably expanded its portfolio in 2005 while receiving an optimised structure to reap the growing demand for UAVs. Centralisation of marketing and sales activities will create one face to the customer and harmonize DS Division offerings, while at the same time creating a footprint and global communities in key export markets, thereby enhancing its focus on customer needs. Moving the System Design Centre to DS Division level makes it more visible and accessible to BUs and the EADS Group. Focusing on people development, improvement of project risk management and streamlining its processes will ensure that the new organisation runs efficiently. Additionally, each BU will lead operative parts of the Services business, which will strengthen the capacities for future cooperative models with the customers.

Supporting the transformation process

Through already existing programmes with the NATO Supreme Allied Command Transformation, the French Defence Ministry, the U.K.'s NITeworks and Germany's national integrated test bed (NITB), DS is actively promoting European and NATO transformation. DS is supporting its customers in assessing and evolving their security needs by supplying simulation systems such as NetCOS in three out of the four home countries and with plans to expand to the U.S. DS also participates in the Network Centric Operations Industry Consortium (NCOIC), an industry-based collaborative forum, formed in order to recommend an architectural approach that system and platform developers

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may follow to facilitate their participation in a global network environment. The focus for the future will be to continue to work closely with industry and customer working groups to help define, influence and, most importantly, deliver system solutions geared towards an intensified transformation process.

Moving beyond defence into security

As an enabler for the organisations countering asymmetrical threats, DS' Large Systems Integration approach is the paradigm for the realisation of global security solutions. Seeking to maximise efficiencies through the optimal use of data and information together and across the relevant security organisations, DS is adapting its expertise in defence to the fast-growing markets of global security (estimated at €35 billion globally per year), multiplying the number of revenue and profit opportunities. Best practice examples include border surveillance in Romania and a contract to provide a nationwide Trans European Trunk Radio ("TETRA") radio network for Hungarian authorities.

Strengthening the DS Division's position in home markets and the U.S.

DS is continuing to focus on its customer orientation in the U.K., France, Spain, and Germany. Within these respective markets, further efforts in the core businesses will remain a strategic goal towards profitable growth in defence. In particular, EADS seeks to raise its visibility in the U.K. and capitalise on the opportunities that the U.K. market provides. The DS Division aims to become a market leader through projects emphasising LSI solutions such as U.K.'s defence information infrastructure (DII) programme, and ground based air defence (Land Environment Air Picture Provision - LEAPP). DS recently established a NetCOS centre in the U.K. with others already existing in France and Germany. In France, further inroads have also been made in the area of UAV technology partnerships and command & control systems. As an important partner in the Eurofighter consortium through EADS CASA, Spain continues to be a significant market for profitable growth, which DS is focused on developing. Involvement in the NEURON demonstrator is also coordinated through MAS Spain.

Penetration of the U.S. defence market remains a key objective for the DS Division, which seeks to expand its

current U.S. industrial presence in defence electronics and test & services. EADS North America Defence Company ("NA DefCo") is part of the overall strategy to increase business with the U.S. Department of Defence and the U.S. industrial primes. NA DefCo is, however, an independent entity and remains outside of the DS organisation. Methods for expanding into the United States include:

- pursuing specific market segments where the DS Division can offer superior products and technologies, such as the Hellas obstacle avoidance system for helicopters and the TRS-3D radar for the U.S. Coastguard;
- building strong transatlantic industrial partnerships with U.S. prime contractors, including Northrop Grumman (U.S. Tanker programme, NATO AGS, Ballistic Missile Defence, EuroHawk®), Lockheed Martin (MEADS, Deepwater, Littoral Combat Ship, COBRA, Ballistic Missile Defence) and Raytheon (Ballistic Missile Defence) to explore new opportunities driven by military transformation; and
- seeking acquisitions and new partnerships to enhance the DS Division's U.S. operational footprint across several market sectors, including platform systems, operational support and defence electronics.

Defence and Communications Systems (DCS)

Defence and Communications Systems ("DCS") is the EADS "Systems House". The mission of DCS is to create complete communication and information system solutions and the means to implement them. DCS offers to its customers comprehensive and tailored solutions, combining the know-how to design, develop and implement LSI (Large Systems Integrations), and link the widest possible range of individual platforms and subsystems into a single effective network.

Information and secured communication system solutions in global security as well as systems enabling for effective border control and coastal surveillance constitute another major focus for DCS. System integration is becoming increasingly important in these areas.

Through the acquisition (subject to closing) of Atlas Elektronik in Bremen together with ThyssenKrupp Technologies, DCS will pool its competencies in naval

sensors, electronics and combat management systems, thus creating a strong maritime electronics and systems company.

In 2005, DCS generated 19% of DS's total revenues.

Markets

DCS faces competition from large U.S. and European companies that also specialise in DCS markets. Major competitors are Lockheed Martin, Thales, Motorola and SAIC. Key customers for DCS' business include mainly governmental customers, such as MoDs, ministries of interior in the home markets France, Germany and the U.K. with an increasing focus on other European countries and Asia.

Products

Mission Systems & Solutions ("MSS"). DCS offers comprehensive military mission capabilities in the area of airspace dominance, battlespace systems, intelligence solutions and naval systems as well as an overall systems support. It acts as a prime for full systems design architecture and systems integration responsibility for military land-, sea-, air- and space-based systems. MSS delivers airspace dominance systems for defensive, offensive and support operations in a combined, joint environment, thus realizing flexible, network enabled capabilities.

In the area of battle management solutions for army and joint forces, MSS provides complete solutions offering a continuous chain of command from the highest level of command to the forces on the ground. The portfolio allows to take mutual advantage from a variety of interdependent elements: multi data source fusion systems, multi mission ground stations, command control (C3I) systems for the strategic, operative and tactical level, military communication networks and intelligence systems. MSS is a major designer and supplier of C3I systems to the armed forces in France and Germany, and the Joint Staffs in France, Germany and NATO.

MSS systems support enables customers to maintain and operate their EADS provided systems over the service life of these systems.

Major contracts signed include the installation of a land-based maritime traffic surveillance and coastal protection system in Portugal and a contract for the development of

the French C3I system SIR. In the Asia Pacific a contract with the Vietnamese Ministry of Natural Resources and the Environment for an integrated surveillance system for the Vietnamese Centre for Remote Sensing was signed.

Information Infrastructure Solutions (IIS). DCS provides solutions, interfaces and gateways necessary to use Open Architectures that improve interconnection and interoperability. Key competencies are information infrastructure security, network infrastructure interoperability, information management, satellite based broad band solutions, information infrastructure integration, integrated logistics support, interoperability and spectrum dominance.

IIS is focusing on the information infrastructure through systems and services by integrating relevant C4I-Systems on all types of platforms in order to network all players in the battle space. IIS is responsible for designing and implementing infrastructure including all the services needed to support the Mission Systems & Solutions projects.

The Atlas consortium (in which Fujitsu is the prime contractor and EADS is a key member) won the contract for U.K.'s MoD defence information infrastructure (DII) project in 2005. The 10-year programme will provide 300,000 users with a single information network delivering a coherent integration of sensors, decision makers, weapon systems and support capabilities. IIS also won a contract award from NATO procurement agency to supply an Interim Forces Tracking System (IFTS), a secure system for locating Allied Forces in Kosovo and the Balkans.

Global Security. DCS provides fully integrated solutions and services in order to mitigate risk exposure in the areas of: border and maritime security, crisis management, large event protection and critical infrastructure. Taking into account the increased interconnection between different areas of threat and particularly in view of the growing interdependencies of internal and external security, the seamless collaboration of different security organisations is increasingly important. EADS seeks to maximise efficiencies through the optimized use of data and information together and across the relevant security organisations.

The contract between Romania and EADS, confirmed in 2005, provides for the delivery of an integrated system for surveillance and securing of the Romanian border. This will enable Romania to meet its increased security requirements

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after its planned E.U. entry. The first phase of the project will be completed by the end of 2006, shortly before Romania officially joins the E.U., and completion of the overall project is targeted for December 2009.

Secure Networks (“SN”). DCS provides integrated security solutions for public safety, civil defence entities, transport and industries, using TETRAPOL, TETRA and P25 standard secure communication networks. SN has taken over Nokia’s PMR business in 2005 and is now a global leader in providing high level communications systems for law enforcement and civil safety organisations.

Major contracts recently signed are the delivery of the infrastructure for the Hungarian nationwide TETRA radio network (EDR), the TETRA solution to secure communications during 15th Asian Games in December 2006 in Qatar, the procurement contract to supply the German Armed Forces (Bundeswehr) with TETRAPOL technology and the contract with the French National Gendarmerie on modernisation of its “RUBIS” secure TETRAPOL radio communications network. Within the scope of the competitive tendering for the nationwide digital voice and data transmission network for German security authorities and organisations (“BOS”), EADS has submitted the most cost-effective bid according to the results of the first evaluation.

Defence Electronics (DE)

As the Electronic Warfare, Avionics and Sensors House of EADS, DE provides mission-critical elements for data gathering, data processing and distribution, and self-defence. Its business is based on sensors and subsystems as a second-tier supplier and addresses the market for surveillance and reconnaissance, military mission management, platform self-protection, network-enabled capabilities and military forces support.

In 2005, the DE business generated 11% of DS’s total revenues.

Markets

EADS’ main competitors in defence electronics are large and medium-sized U.S. and European companies (i.e., Raytheon, Northrop-Grumman, Thales, BAE Systems, Galileo Avionica, Indra and Saab) as well as competitors from

Israel. Following this year’s integration of Ewation GmbH into DE, growth in Electronic Warfare (EW) systems is a key strategic goal for DE. DE’s key customers include MoDs, interior ministries, military services, security forces, the in-house EADS systems suppliers and other LSI’s worldwide. Through various joint ventures, participations and cooperations, DE has access to MoDs of all NATO countries, particularly in Germany, France, the U.K., Spain and Italy. Export markets, especially in the Middle East and the Asia-Pacific region, also offer growth opportunities.

Products

Electronic Warfare and Self Defence. DE supplies electronic self-protection systems for aircraft, ships and armoured vehicles, such as laser warning, missile warning and active electronic countermeasure units, including directed infrared countermeasures, self-protection jammers and towed decoys. In this field DE delivers core components to the “EuroDASS” defensive aids subsystem on Germany’s 180 Eurofighters and supplies additional avionics components to the wider Eurofighter programme. It has subsystem responsibility for the A400M’s self-protection system, also supplying core EW equipment such as the Infrared missile warning system MIRAS contracted in 2005. For military mission aircraft, helicopters (NH90, Tiger) and VIP aircraft, DE is particularly developing solutions to counter threats from infrared-guided missiles. To date, DE has sold approximately 5,000 units of its missile warning sensor (MILDS), which is deployed on a variety of helicopters and transport aircraft. Based on MILDS, DE has developed the version MILDS F to meet specific requirements for the Royal Danish Navy’s F-16 fighter aircraft. DE also offers self-defence equipment for ships and armoured vehicles.

Avionics. As a major partner in the field of military mission avionics for the A400M, DE assumes the subsystem responsibility for mission management and defensive aids. The DE portfolio also comprises avionics equipment, such as digital map units (EuroGrid), flight data recording units and obstacle warning systems for helicopters. Additionally, DE is developing multi-sensor integration and data fusion technology, which is a key future technology for network-enabled capabilities. For example, DE is in charge of sensor fusion software on the NATO AWACS E3A and the Australian “Wedgetail” programmes and was awarded a contract in 2004 to develop a Multi-Sensor Tracking system

for the Finnish Air Force. Additional products offered by DE in the field of communication and identification include wide-band modular data links and MIDS (multi-function information distribution system), both core elements of network-centric operations.

Sensors. DE is a principal partner for airborne multi-mode radars such as the Captor radar in the Eurofighter programme, combined with integrated logistics support, maintenance and upgrades. DE is also heavily involved in the technology development and application of next-generation active phased array radars for air, naval and ground applications, such as Eurofighter, the Tactical Radar for Ground Surveillance (TRGS) and MEADS. In the area of air defence, EADS produces mid-range radars for ship (TRS-3D) and land (TRML-3D) applications. As subcontractor for the K-130 corvettes of the German Navy and the Finnish Squadron-2000 programme, EADS is responsible for major shipboard sensor subsystems. A success in the U.S. market was a bilateral agreement signed in October 2004 for a long-term partnership with Lockheed Martin to evaluate opportunities for joint development, marketing and production of the TRS-3D in other shipbuilding programmes worldwide, which has led to two radar contracts to date.

DE also takes a lead role in developing and manufacturing synthetic aperture radars (SAR), which are considered essential for future reconnaissance and surveillance operations. In this field, EADS has developed MiniSAR, the European stand-off SAR sensor for wide-area surveillance (SOSTAR-X) as well as for use in the TCAR AGS Radar for the NATO AGS programme. DE's radar competence is underscored by the Microwave Factory, an automated assembly line for the manufacturing of miniaturized high frequency components forming an integral part of future radar sensors and electronic warfare applications. EADS holds a 50% stake in United Monolithic Semiconductors (UMS), a joint venture with Thales. UMS provides EADS with access to essential gallium arsenide technology for next-generation radars.

Military Air Systems

The DS Division's Military Air Systems unit focuses on the development and manufacturing of the Eurofighter combat aircraft, maintenance, repair and overhaul (MRO), logistics

support, upgrade of existing combat air systems, provision of training services and construction and manufacturing of Airbus aerostructures. Additionally, Military Air Systems designs light combat / training aircraft and unmanned aerial vehicles (UAV / UCAV). Military Air Systems has launched the MACH4i change project to optimize its organisation, streamline its internal processes and improve its corporate culture.

In 2005, the Military Air Systems business generated 32% of DS's total revenues.

Products and Services

Eurofighter. Eurofighter, known as "Typhoon" for export outside of Europe, is a network-enabled, extremely agile, high-performance multi-role combat aircraft optimised for swing-role operations in complex air to air and air to surface combat scenarios. It is fully compatible with state-of-the-art NATO weapons systems. Known as Europe's largest collaborative programme, Eurofighter is designed to enhance fleet efficiency through a single flying weapon system capable of fulfilling supersonic, beyond-visual-range combat, subsonic close-in air combat, air interdiction, air defence suppression and maritime and littoral attack roles. The tactical requirements of the aircraft include all-weather capability, short take-off and landing capability, high survivability and operational readiness. The Eurofighter was designed to be adapted and improved over the long-term, as new avionics and weapons evolve, to provide for an extended service life.

The Eurofighter programme is organised through the NATO Eurofighter and TORNADO Management Agency ("NETMA") via participating nations. NETMA contracts with Eurofighter Jagdflugzeug GmbH (Eurofighter GmbH), the programme management company for the Eurofighter programme. The Eurofighter GmbH shareholders and subcontractors are EADS (46% share), BAE Systems (33% share) and Alenia Aerospazio, a division of Finmeccanica (21% share). With regard to series production, the respective production workshares of the participating partners within the Eurofighter consortium stand at 43% for EADS, 37.5% for BAE Systems and 19.5% for Alenia, reflecting the relative number of aircraft ordered by each country's programme participant. EADS is responsible for the centre fuselage, the flight control systems, the manufacturing of the right wing and leading edge slats, and

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the final assembly of the 180 aircraft for the German Air Force and 87 aircraft ordered by the Spanish Air Force. The final assembly of the Eurofighter takes place in the relevant contracting country: Manching in Germany, Getafe in Spain, Warton in the U.K. and Torino in Italy.

In January 1998, NETMA signed an umbrella Eurofighter contract for 620 aircraft: U.K. 232 (with 65 options); Germany 180; Italy 121 (with 9 options); and Spain 87 (with 16 options). The umbrella contract, while fixing a maximum price for the overall programme, also stipulates that production agreements are to be awarded in three tranches. The programme includes the development, production investment and series production of the aircraft. Currently, 402 aircraft are firmly on order.

Eurofighter's first tranche of 148 aircraft is being delivered between 2003 and 2007, with additional production expected to continue until 2015. Seventy-four Tranche 1 aircraft have been delivered as of the end of 2005, and the rest are in final assembly or advanced production. Eurofighter has already sold 18 aircraft to Austria, and further export opportunities are believed to exist in Europe, the Middle East and the Far East. A government-to-government agreement has been reached between the U.K. and the Kingdom of Saudi Arabia on the purchase of Eurofighter aircraft, marking the first export success of the aircraft outside Europe.

Intelligence, Surveillance and Reconnaissance Systems (ISR). ISR focuses on the development of complete air-based systems with integrated sensors for strategic, operational and tactical missions primarily for information procurement (i.e., surveillance and reconnaissance). The ISR product portfolio comprises the complete spectrum of manned mission aircrafts and Unmanned Air Vehicles ("UAVs") and Unmanned Combat Aerial Vehicles ("UCAV"). In June 2004, the French MoD launched an initiative to close the gap in European defence capacity in the area of MALE drones with a system designed and manufactured by European industry. The Minister subsequently appointed EADS for the EuroMALE drone demonstrator programme. EADS' main partners in the project are Dassault and Thales. EADS is also working on a technology demonstrator project to acquire new experiences and technologies for future UAVs.

The transatlantic EuroHawk® project was initiated by EADS and Northrop Grumman in July 2000. The two companies signed an agreement to develop an unmanned aerial wide-

area surveillance and reconnaissance system by bringing together their respective expertise and company-funded developments in UAV and mission system ISR technology. This cooperation initiated a bilateral project agreement between the U.S. Air Force and the German MoD, which was signed in October 2001. The first phase of the project includes the proof of operation of the high altitude long endurance (HALE) UAV concept, the integration of the Defence Electronics (DE) signal intelligence (SIGINT) sensor and a flight demonstration programme in Germany successfully concluded in 2003 to the customer's continuing satisfaction. Additional milestones include the German Procurement Agency proposal request delivered in September 2004 and the expected Design and Development Contract award in 2006.

The Transatlantic Industry Proposed Solution ("TIPS") Consortium, made up of EADS, Galileo Avionica, General Dynamics Canada, Indra, Northrop Grumman and Thales, was selected by NATO in April 2004 to provide a NATO-owned common ground picture for battlefield planning with a mixed fleet of manned wide body -jets (A321) and high -altitude long -endurance UAVs (Global Hawk). The Transatlantic Cooperative AGS radar ("TCAR") will equip both manned and unmanned platforms. The TCAR consortium under the lead of DE is composed of Dutch Space, EADS, Galileo Avionica - FIAR, Indra, Northrop Grumman, Raytheon and Thales. The TCAR programme will be integrated into the NATO AGS bid, acting as a subcontractor within TIPS. In 2005, TIPS successfully completed a risk reduction study which was another important milestone that confirms this programme is both affordable and executable. The Design and Development Contract award from NATO is expected in 2006.

Pilot Training and Training Aircraft. The training and light combat aircraft market is competitive, with offerings from BAE Systems (Hawk 128), KAI/Lockheed Martin (T-50), Aermacchi (AM-346) and others. EADS' entry in this field is the Mako High Energy Aircraft Trainer (HEAT). The Mako HEAT is intended to close the growing gap between the demands made on pilots by modern fighter aircraft and the training opportunities provided by ageing in-service trainers. While EADS will not launch a full-scale design phase for the time being, efforts to win customers and industrial partners will continue.

Military Air Systems Upgrades and Support Services. In addition to providing profitable after-market services to existing customers, aircraft modernisation operations provide access to new export markets for future sales of all types of aircraft, both military and commercial. The upgrading of military airframes is particularly attractive for countries with limited national defence budgets, such as those in Central and Eastern Europe, Latin America, North Africa and some Asian regions. For these nations, the purchase of new multi-role aircraft is either politically or economically unaffordable, making upgrading of existing airframes the most cost-effective solution. EADS has developed expertise in the field of Military Air Systems upgrades through programmes for such aircraft as the Tornado, F-4 Phantom, F-18, F-5, MiG-29, Mirage F-1, C101 Aviojet, Harrier AV-8B, E-3A AWACS, P-3A Orion, C-160 Transall and Breguet Atlantic 1. These capabilities will be particularly valuable in capturing new markets, such as further upgrades of central European air force aircraft and future support contracts for Eurofighter.

Missile Systems

The Missile Systems group within the DS Division (consolidating 50% of MBDA and 100% of EADS / LFK) offers superior and unique capabilities in missile systems and covers the whole range of solutions for air superiority, land control and sea power missions, while also providing the most evolved technological solutions in strike weapons and missile defence for all three services. The further development of access to export markets access and the consolidation of the business will remain principal goals for 2005. Enhancing the missile technology and product portfolio to provide customers with a broader range of cost-effective missile solutions should enable MBDA to continue to offer an unrivalled range of products and services. The integration of EADS / LFK into MBDA is under way, following receipt of final approvals from the European Commission and the German competition authority in February 2006.

In 2005, the Missiles Systems business generated 35% of DS's total revenues.

Markets

Missile Systems has a geographically diverse customer portfolio. Through a multinational network of subsidiaries, this unit has direct access to the major European domestic markets in France, Germany, Italy, Spain and the U.K. It also has a stable foothold in growing export markets such as Asia and the Gulf region, and benefits from transatlantic cooperation on programmes such as MEADS and Patriot.

Four principal defence contractors are active in the worldwide market for tactical missiles and missile systems. As measured by revenues in U.S. Dollars, MBDA ranked first in 2005 sales figures for the second time and ahead of Raytheon, Lockheed Martin and Boeing missile activities. The current worldwide market for missile systems is estimated to exceed €10 billion. This market is expected to increase due to:

- the demand for development of new products (such as ground-based air defence systems and precision stand-off guided missile systems);
- new missile carrying platforms entering into service (Mirage 2000-5/9, Rafale, Eurofighter/Typhoon, Gripen, Tiger helicopter, new frigates and aircraft carriers); and
- different requirements for future weapon systems derived from new operational tasks and lessons learned from recent conflicts.

Products

The EADS Missile Systems group, with its broad range of MBDA and LFK products, is active in all of the six principal missile system categories: air-to-air, air-to-surface, ground-to-air, surface-to-air, anti-ship and surface-to-surface. The following table lists the programmes in which EADS participates as prime or major contractor either directly or through joint ventures:

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Type of Missile	Purposes	Key Products or Projects
Air-to-Air	Short-range	ASRAAM
	Beyond visual range	MICA
	Long-range	Meteor
Air-to-Ground	Stand-off guided	Taurus KEPD 350, AFDS, DWS (for fighter aircraft)
	Long-range	LR TRIGAT (for TIGER helicopter)
	Short-range	Diamond Back - Bang
	Stand-off with sub-munitions	Apache
	Stand-off unitary warhead	Scalp EG / Storm Shadow
	Prestrategic stand-off	ASMP - ASMP A/VESTA
	Anti-radar	ALARM
Ground-to-Air	Tactical air defence	Stinger, LFK NG, Roland, Gepard, Patriot / PAC 3, MEADS
Ground-to-Air/ATBM	Very short-range	Mistral - Stinger (under license)
	Short-range	VL Mica - Roland - Rapier - Spada
	Medium-range	Aster SAMP / T - MEADS - Patriot/PAC 3
Ground-to-Ground	Medium-range	Milan / Milan ADT, HOT
Subsystems		Warheads (TDW)
		Propulsion Systems (Bayern Chemie) (e.g., Meteor / ramjet)
Surface-to-Air/Naval	Very short-range	Mistral
	Short-range	VL Mica - VL Seawolf
	Short-range	Albatros - RAM
	Medium-range	Aster/PAAMS - Aster / SAAM - ESSM
Anti-ship	Light	Sea Skua - AS 15 TT - NSM - Marte
	Heavy	Exocet family - TESEO
	Anti-submarine	Milas
Anti-tank	Short-range	Eryx
	Medium-range	Milan
	Long-range	HOT - LR Trigat - Brimstone
Surface-to-Surface, Deep Attack	Ground-to-ground	G-MLRS
	Sea-to-land	Scalp Naval

The most significant programmes currently under development and production are Aster, Storm Shadow / Scalp EG, Taurus and Meteor, with the bulk of deliveries scheduled between 2003 and 2007.

Aster Family. The FSAF (*famille de missiles sol-air futurs*) Phase 3 contract signed with OCCAR (Organisation Conjointe de Coopération en matière d'Armement) in November 2003 is worth €3 billion (thereof €2.3 billion MBDA). This contract covers the series production of approximately 1400 Aster missiles and associated missile systems, and it represents Europe's first advanced naval and ground-based air defence missile system with Anti-Tactical Ballistic Missiles (ATBM).

Storm Shadow / Scalp EG. Already in service in the U.K. and France, and entering service in Italy in 2006, the Storm Shadow / Scalp EG was also selected by Greece in January 2004. The Hellenic Air Force has ordered 34 Storm Shadow / Scalp EG (SS / EG) missile systems. Having reached full production in 2004, the SS / EG has delivered about 600 missiles to customers in 2005. In the UAE, where the missile is known as "Black Shaheen", deliveries are under way to the air force.

Taurus KEPD 350. EADS / LFK and SAAB Bofors are working together under the roof of Taurus Systems GmbH to create and deliver the Taurus KEPD 350, a precise stand-off guided missile system for Tornado, Gripen and

Eurofighter aircraft. Taurus KEPD 350 is starting series production for the German Air Force and a first batch of 65 have been delivered. In 2005, Spain has also decided its intention to procure 43 Taurus KEPD 350 for its F/A-18 and Eurofighter aircraft.

METEOR. For its first live air-launched demonstration in 2006, METEOR will be fired from a Gripen combat aircraft at the Vidsel range in Sweden. This test flight, using a missile equipped with a full telemetry capability (not with a warhead or a seeker), will confirm METEOR release properties, manoeuvrability and the effectiveness of the motor technology as it goes through its boost and sustain phases

MEADS. The MEADS Medium Extended Air Defence System, a ground-based tactical air defence system, is a good example of dynamic and successful cooperation on a transatlantic level. MEADS will protect troops during out-of-area missions and objectives within the scope of homeland defence. The financial share of the programme is 58% American, 25% German and 17% Italian. The technical workshare of the companies involved – EADS / LFK (Germany), MBDA-IT (Italy) and Lockheed Martin (United States) – is in line with the respective cost contribution percentages. The European companies coordinate their activities through the joint venture company euroMeads GmbH, which, like Lockheed Martin, has a 50% share in MEADS International Inc. (“MI”). On 1st June 2005, MI formally signed a contract to design and develop MEADS. The contract value is approximately \$2 billion plus €1.4 billion for the program’s design and development (“D&D”) phase. The D&D contract extends the period of performance of a previous letter contract that was awarded to MI by the NATO MEADS Management Agency (NAMEADSMA) in September 2004. Award of the contract followed the German government’s approval on 20th April 2005 of entry into the MEADS D&D phase, a step taken earlier by the governments of Italy and the United States.

Ballistic Missile Defence. EADS is the only company in Europe with the full range of skills and technologies needed to develop, deploy and support Ballistic Missile Defence (“BMD”) systems, whether for the protection of armed forces or entire countries and their populations. As part of the U.S. effort to develop a defence against missile attack, NATO has selected EADS as a member of a transatlantic

consortium to conduct a Theatre Missile Defence feasibility study. In September 2004, EADS and Raytheon signed a co-operative agreement to begin collaborating on ballistic missile defence interceptor programmes in Europe, the U.S. and around the world. EADS has signed further Memorandums of Understanding in the field of BMD with Lockheed Martin and Northrop Grumman.

Services Activities

The DS Division’s Services activities were organized in 2005 around outsourced services, test and related services, and system engineering services. Each BU leads operative parts of the services business, further developing the activities in the area. Additionally, a centre of competence for services activities is being created. Capacities for future cooperative models with the customer will be strengthened. The growing complexity of modern systems and engineering tools and the requirement for cost-effectiveness has led customers to demand turnkey solutions instead of stand-alone equipment. Because of its technical and organisational capabilities, EADS can pool the resources and products of its various subsidiaries and external suppliers to offer such solutions.

For armed forces, outsourcing is an effective solution to the problems of tight public budgets and reductions of military personnel. To maintain its position as prime contractor with military customers and to generate profitable growth in stable defence markets, EADS aims to play a key role in such outsourcing of defence activities.

In 2005, Services activities generated 4 % of DS’s total revenues.

Outsourced Services

This provides for training services to the German and French navies and air forces for air defence, in addition to other services in Europe. EADS was selected by the German MoD for a 5-year flight operations contract (€95 million) from 2004 until 2008 (target towing, ELOKA training). Altogether, Services units operate 26 aircraft.

Services also participates in various outsourcing projects for French, German, Spanish and U.K. military customers in the field of logistics, training, telecommunications and flight operations.

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Services units will participate in the Atlas consortium, which was shortlisted against on competitor in the DII (Defence Information Initiative in military communications) project.

Test & Services

The increasingly complex electronics used in civil and military air systems and weapon systems require continuous equipment maintenance testing solutions.

Through its Test & Services unit, the DS division confirmed its leading worldwide market share position for multi-purpose civil aviation test systems and related services, as well as its leading position in Europe as supplier of multi-purpose defence test equipment. In 2005, Test & Services sustained its level of orders from airlines worldwide. This is consistent with Test & Services' strategy to develop a scalable technical standard that provides airlines with continuous solutions.

The acquisition of Racal Instruments resulted in the group's Test & Services unit becoming the leader in the market for testing equipment, solutions and services in Europe. Future plans include implementing and developing synergies between Racal Instruments and the former Test & Services unit and generating new customers in different countries through partnerships or industrial presence.

System Engineering and Consulting Services

In 2005, Apsys continued to build on its position as the French leader in risk management on advanced technology projects. This operating unit offers different types of services (e.g., consulting; studies; training; software; and

audit) along all phases of a project life-cycle and utilises various technical approaches (e.g., reliability, availability, maintainability and safety studies; human factor analysis; industrial, environmental and nuclear risk assessment; and software and system quality). Major markets include aeronautics, defence, the petroleum industry and transportation systems. Apsys plans to continue its long-term partnerships with EADS customers (Airbus, Eurocopter and Space Launchers), representing the majority of its revenues, while also diversifying and enhancing its business with other customers.

Dornier Consulting GmbH

Dornier Consulting continued its direction of profitable growth in 2005 as a company for Future-oriented transportation and technology consulting with focus on traffic, transportation and logistic concepts, system specification and integration, modern technologies for the management of natural resources as well as professional full-service project management. It is an independent consulting and engineering company with clients in the public and private sector in Germany, Central and Eastern Europe, Central Asia as well as in the Near and Middle East. Major clients are national and international institutions (World Bank, United Nations Development Programme, European Union, *Kreditanstalt für Wiederaufbau* (KfW), *Gesellschaft für Technische Zusammenarbeit* (GTZ)), governments, authorities, German Railroad (*Deutsche Bundesbahn*), DaimlerChrysler and EADS as well as a wide spectrum of private companies. Dornier Consulting intends to further develop its position within EADS and to act as a door opener for other EADS Units.

1.1.6 Space

Introduction and Overview

EADS is the third-largest space systems manufacturing company in the world after Boeing and Lockheed Martin and the leading European supplier of satellites, orbital infrastructures, launchers and associated services. In 2005, the Space Division's consolidated revenues were €2.7 billion, representing 8% of EADS' total revenues.

The Space Division ("EADS SPACE") designs, develops and manufactures satellites, orbital infrastructures and launcher systems and provides space services. EADS SPACE is composed of three main entities: EADS Astrium, EADS SPACE Transportation ("EADS-ST") and EADS SPACE Services. EADS SPACE also provides launch services, through its shareholdings in Ariespace (Ariane 5 launcher), Starsem (Soyuz launcher) and Eurockot (Rockot launcher),

as well as services related to telecommunications and earth observation satellites, through dedicated companies such as wholly-owned subsidiaries Paradigm Secure Communications and Paradigm Services (“**Paradigm**”), Infoterra and joint ventures such as Spot Image.

The return to profitability of EADS SPACE in 2004, following two years of major industrial re-engineering, was maintained in 2005 with a positive EBIT* of €58 million (2.2% of revenues). All three BUs of EADS SPACE, (EADS Astrium, EADS-ST and EADS SPACE Services) have posted positive 2005 results.

Strategy

As part of EADS, with an established presence in four European space powers (France, Germany, Spain and the United Kingdom), and a future presence in the Netherlands due to the on-going acquisition of Dutch Space, EADS SPACE is the only European company to benefit from the full range of competencies in all fields of the space industry (satellites, launchers, orbital infrastructure and services). EADS SPACE’s strategy is to build on these key strategic assets and to strengthen its position in the market.

Secure EADS’ position in the commercial launch services market

As the main industrial shareholder and prime supplier of Arianespace, and with the backing of European governments (illustrated by the implementation of the European Guaranteed Access to Space (EGAS) initiative), EADS leads the restructuring of the European space transportation industry in response to increased competition in the launch vehicle field and a weak commercial telecommunications satellite launch market. EADS SPACE is the prime contractor for Ariane development and production, and is therefore in a position to streamline the Ariane manufacturing process in order to reduce costs and to increase launcher performance and reliability. The qualification of the Ariane ECA launcher, obtained after a second successful launch in November 2005 (the first one having occurred in February 2005), reflect the results of these efforts. The decisions of the December 2005 Space Ministerial Conference further illustrate the determination of the European governments to support Ariane. Reinforced

links with the Russian space industry (Starsem and Eurockot joint ventures) further buttress EADS’ position in the commercial launch services market.

Extend EADS’ leadership in European military space programmes

Management views national and European space programmes, such as the Paradigm and Satcom BW programmes, as important future growth segments for the Company. EADS SPACE operates the Skynet system for the U.K. government and is developing Paradigm to serve the U.K. government’s needs in the coming years. In addition, because spare capacity is available on Paradigm, EADS SPACE has made available its services in military telecommunications, and has signed contracts with NATO, Portugal and other governments for their secure satellite communications requirements. EADS SPACE is also well-positioned in military reconnaissance systems (Helios II and Pleiades) and other military-specific capabilities (e.g., Spirale, Lola, Essaim and Elint). An agreement to supply and operate for Germany secured communications satellites has been reached, which is currently subject to the customary German parliamentary approval process. Management believes that European governments realise the increasing importance of space systems following the Iraq, Afghan and Kosovo military campaigns and can be expected to commit greater resources to independent use of space-based systems, triggering potential export opportunities for EADS.

Become the European leader in navigation systems and services

Management believes that the Galileo satellite-based navigation system offers numerous development opportunities to EADS in the civilian (e.g., air traffic control) and security (e.g., precision positioning) markets. EADS SPACE is the largest member of Galileo Industries, the hardware provider for the Galileo project. In order to operate the Galileo concession, the two competing consortia, iNavSat (EADS, Inmarsat and Thales) and EUrely (Alcatel-Alenia Space, Finmeccanica, Hispasat and Aeropuertos Españoles y Navegacion Aérea (AENA)), together with a third entity (TeleOp), merged. The merged consortia expect to be awarded a concession contract by the Galileo Joint Undertaking (ESA and the European Commission) in 2006.

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Satellites – EADS Astrium

Overview

EADS Astrium is the leading European company in the design and manufacture of satellite systems, spanning all major segments of the satellite market, including platforms, payloads and equipment. It provides (1) telecommunications satellites to leading telecommunications service providers, (2) earth observation, navigation and science satellites systems to major national and international agencies, and (3) military applications satellite systems to European MoDs. EADS Astrium also designs and manufactures payload equipment and subsystems for the global space industry market.

EADS Astrium's business covers the four categories of satellite systems described below:

Telecommunications satellites have multiple applications, such as long-distance and mobile telephone links, television and radio broadcasting, data transmission, multimedia and Internet trunking. They may be used for civil or military applications.

Observation satellites allow the gathering of information for various fields, such as cartography, weather forecasting, climate monitoring, agricultural and forestry management, mineral, energy and water resource management and military surveillance applications.

Scientific satellites are tailor-made products adapted to the specific requirements of the mission assigned to them. They have applications such as astronomical observation of the sources of radiation of the universe, planetary exploration and earth sciences.

Navigation satellite systems deliver signals that enable users to determine their geographic position with high accuracy, and are increasingly significant in many sectors of commercial activity, such as airlines, transport operators on land, sea and air, emergency services, agriculture and fisheries, tourism and telecommunications networks.

Market

The commercial telecommunications satellite manufacturing market is highly competitive, with customer decisions based principally on price, technical expertise and track record. EADS Astrium has approximately 15-20% of this worldwide market, and its main competitors are Boeing,

Lockheed Martin and Loral of the United States and Alcatel-Alenia Space of France and Italy. Management views the telecommunications satellite segment as slowly recovering from the effects of a market consolidation, because of such factors as (1) increased telecommunications demand, including Internet, multimedia and military needs, and (2) greater demand to replace aging fleets. But, the segment remains a highly competitive market, due in part to the increasing concentration of satellite operators. EADS intends to strengthen its position in this field and to participate in the market recovery.

EADS benefits from its long-term and close relationships with institutional customers in France, Germany, Spain and the United Kingdom that have access to their respective national budgets.

In Europe, the market for observation, scientific and navigation satellites is organised either on a national or on a multinational (European Space Agency ("ESA"), Eumetsat) basis and in accordance with the fair return policy, under which contracts are awarded to domestic suppliers in proportion to the respective contributions of the suppliers' countries.

There is emerging export demand for earth observation systems, for which EADS is currently the sole significant European provider. Furthermore, civil state agencies, including ESA, are likely to display increased needs for earth observation satellites in the framework of European environmental programmes, identified as a key focus of the E.U./ESA framework agreement on European Space Policy in 2003, and further emphasized in the Space Ministerial Conference held in December 2005. EADS expects the scientific satellite market to remain stable over the medium term.

The agreements reached in 2003 at the E.U. level and among ESA member states regarding the development and implementation of Galileo, the new European global satellite navigation system, led to the establishment of the Galileo Joint Undertaking (the legal entity that will have the task of coordinating ESA and E.U. involvement in Galileo).

The Galileo programme comprises 30 navigation satellites and a potential equipment contract valued at more than €3 billion. Full deployment of the system is expected around 2010. For the space industry and its customers, the Galileo programme's economic, industrial and strategic importance

is paramount. This programme is likely to be a driver of innovative user and customer-oriented solutions, creating new markets for navigation-related services.

In the market for military satellites, EADS expects increased demand for telecommunications and observation satellites. In recent conflicts, the shortcomings of European military capabilities in that field have become increasingly visible, while the need for preparedness in the face of elusive threats has promoted such means to a higher level of priority. The Skynet 5 contract in the United Kingdom, the Helios 2, Spirale, Lola and Essaim contracts in France and the German BW contract in Germany illustrate the growth trend in this market.

Products

EADS is able to offer turnkey satellite systems to its customers. EADS Astrium manufactures satellite systems, platforms, payloads, major subsystems and a wide range of equipment. EADS Astrium Spain, a wholly-owned subsidiary of EADS Astrium, supplies platforms, spaceborne antennas, deployment mechanisms and harness subsystems for telecommunication satellites. Tesat, another wholly-owned subsidiary of EADS Astrium, is in charge of telecommunication electronic equipment and subsystems. EADS Astrium Spain and EADS Sodern also contribute to EADS' work on earth observation satellites.

Telecommunications Satellites. EADS Astrium produces telecommunication satellites for fixed and mobile applications and direct-to-home broadcast services. EADS' geostationary telecommunications satellites are based on the EUROSTAR family platforms (40 ordered to date), the latest version of which is EUROSTAR 3000. Three commercial service satellites based on the new E3000 platform were placed into orbit in 2005: Inmarsat IV F1, Inmarsat F2 and Anik F1R.

In 2005, EADS Astrium signed a contract for the Astra 1M Telecommunication satellite for the company SES Astra, based in Luxembourg.

In the field of military telecommunications satellites, EADS Astrium is responsible for the new-generation Skynet 5 system as part of the Paradigm project awarded to EADS SPACE Services in 2003. Development of the project progressed in 2005, with major milestones being met and additional hardware being requested. The finalisation of the Satcom BW contract is expected mid-2006.

Observation Satellites. EADS Astrium is the leading European supplier of earth observation satellite systems, for both civil and military applications. In this field, EADS Astrium derives significant benefits from the common elements of its civil and military programmes.

EADS Astrium designs and manufactures a wide range of highly versatile platforms, optical and radar instruments and ground segment equipment for the complete scope of remote-sensing applications, operations and services. EADS Astrium is one of the global market leaders in the field of earth observation satellites, and the prime contractor for many of ESA's and CNES' principal observation programmes. Specifically, it is the prime contractor for: (1) the Spot multi-mission platform series, in use in 15 European earth observation satellites and recognised as an industry standard (the latest generation, Spot 5, with enhanced coverage capability was launched in May 2002); (2) Envisat, a European environmental monitoring satellite launched in March 2002; (3) Metop, a next-generation polar-orbiting meteorological satellite system to be operational in 2006; (4) Pleiades, two small and highly agile earth observation satellites for civil and military applications, expected to be launched in 2008 and 2009; and (5) Swarm, a climatology satellite monitoring the evolution of the earth's magnetic fields.

2005 witnessed the launch of Cryosat, a radar satellite designed to monitor the thickness of polar ice caps, which unfortunately failed due to a launcher malfunction.

In the export market, EADS Astrium signed a contract in May 2005 with the Korean authorities to provide the communication and earth observation satellite Coms, together with the associated ground segment, for delivery in 2009.

Science Satellites. EADS Astrium is the prime contractor for the spacecraft in ESA major scientific programmes, including the four Cluster II spacecraft, the vast XMM-Newton space telescope, Mars Express, (the first European mission to Mars) and Venus Express.

Venus Express was successfully launched from Baikonour in November 2005, and MSG 2 from Kourou in December 2005.

Navigation Satellites. EADS Astrium, together with Alcatel, Alenia Space and GSS has established a dedicated company to build and implement the European navigation system Galileo. EADS Astrium holds a 38% stake in Galileo Industries S.A. ("**Galileo Industries**"), which was awarded

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a contract for the first of two test satellites for the European navigation system in July 2003. The system's launch date is scheduled for the beginning of 2006. For the four satellites required for the validation phase, EADS Astrium is prime contractor for the space segment, and through Astrium Germany, supplies the avionics and part of the solar arrays. EADS Astrium U.K. is responsible for payload development and ground segment lead.

Military Satellites. In addition to military earth observation activity, EADS Astrium is active in the market for airborne laser optical links demonstrators (LOLA), early warning satellite demonstrators (Spirale) (together with Alcatel-Alenia Space) and electromagnetic intelligence satellites (Elint). These systems demonstrate EADS SPACE's leading role in complex systems offers, reflecting the efficient use of synergies between EADS' space and defence activities.

Orbital Infrastructure / Launchers and Launch Services – EADS-ST

EADS-ST is the European space infrastructure and space transportation specialist. It designs, develops and produces Ariane launchers, the Columbus laboratory and the ATV cargo carrier for the International Space Station ("ISS"), ballistic missiles for France's deterrent forces, propulsion systems and space equipment.

Orbital Infrastructure

In the field of orbital infrastructures, EADS-ST is the prime contractor under an ESA contract relating to two key elements of the ISS: the Columbus Orbital Facility laboratory ("COF") and the Automated Transfer Vehicle ("ATV").

The orbital infrastructure segment in which EADS-ST operates comprises manned and unmanned space systems. The ISS, together with related vehicle and equipment development programmes and services, constitutes the predominant field of activity in this segment. The Columbia shuttle accident in 2002 led to the postponement of the launch of the European Columbus module, which is now planned for late 2007 or early 2008.

Market. The demand for orbital infrastructure systems originates solely from publicly funded space agencies, and in particular from ESA, NASA, Roscosmos (Russia)

and NASDA (Japan). Such systems are usually built in cooperation among international partners. In addition to the COF and ATV projects, ESA is also responsible for additional ISS components for the station's construction and operational phases. Additionally, national space agencies, such as *Deutsches Zentrum für Luft und Raumfahrt* ("DLR") and *Centre National d'Etudes Spatiales* ("CNES"), are involved in the field of experiment facilities to be used on the ISS.

Products. EADS-ST is the prime contractor for the development and integration of the COF. The COF is a pressurised module with an independent life-support system. It will provide a full-scale research environment in microgravity conditions (material science, medicine, human physiology, biology, earth observation, fluid physics and astronomy) and will serve as a test-bed for new technologies. In December 2005, the ESA awarded a contract to EADS-ST for the operation and exploitation of the European elements of the International Space Station. The contract affirms EADS-ST's position as the sole European prime contractor on this significant international space programme.

In addition to the COF, including all facilities required for energy supply, communications and interfaces to other station elements, EADS-ST is responsible for the Columbus onboard Data Management System. It also participates in the construction of the ISS robotic system European Robotic Arm to be used by astronauts in the assembly and maintenance of exterior station elements during the construction and operational phases.

EADS-ST is also the prime contractor for the development and manufacture of the ATV, designed to carry fuel and supplies to the ISS and to provide reboost capability and a waste disposal solution. The ATV will be the first European vehicle to carry out a rendezvous in space and dock automatically with an orbital station. The first ATV, called Jules Verne, will be launched by the Ariane 5 rocket in mid-2007, with additional ATV missions scheduled through 2013.

Under contract with ESA and DLR, EADS-ST supplies experiment facilities to be used in various station modules for research in microgravity conditions (MSL laboratory, MCS system, RFR refrigerator, CFR rack, MSG glove box, PCDF and Cardiolab laboratories). It also supplies CNES

with a Dedic experiment facility for experiments in the field of fluid physics.

Launchers & Launch Services

Space systems (including satellites, orbital infrastructure elements and interplanetary probes) depend on rocket propelled multi-stage launchers, which are consumed during the launch process, to place them into orbit.

EADS-ST is active in two distinct businesses: (1) designing and manufacturing launchers for both civil and military purposes; and (2) providing launch services through its interests in Ariespace, Starsem and Eurockot.

EADS-ST is the sole prime contractor for the Ariane 5 system, with responsibility for the delivery to Ariespace of a complete and fully tested vehicle. EADS also supplies all Ariane 5 stages, the equipment bay, the flight software, as well as numerous sub-assemblies. Additionally, EADS-ST is the prime contractor for ballistic missile systems to the French State. It is responsible for the development and manufacturing of the M45 and M51 submarine-launched missiles and related operating systems.

Market. Management estimates that the average open commercial market for launch services will likely remain low, at approximately 20 payloads per year, mostly made up of geostationary telecommunications satellites. However, due to various factors (e.g., technology advances and consolidation of customers), this figure is highly volatile. This market does not include institutional launch services for the American, Russian and Chinese military and governmental agencies.

The consolidation of the satellite operators sector in recent years has changed the market of launch services. Joint ventures (e.g., International Launch Services, Sea-Launch, Starsem and Eurockot) have been organised, combining access to low-cost rockets from former Soviet Union companies with the marketing capabilities of western manufacturers, and have created strong competition on the commercial launches market.

In national defence, France follows an independent policy to have its own deterrent force, which is currently based on submarine-launched ballistic missile systems and airborne tactical missiles. In 1998, the French State decided to develop a new generation of ballistic missiles. In addition

to production and state-financed development work, the ballistic missile segment entails substantial maintenance work to ensure system readiness over the life span of the equipment, which may stretch over several decades. EADS SPACE's ballistic missile segment activities are conducted through EADS-ST, which is the exclusive supplier of ballistic missiles to the French State, its sole customer in this area.

Products and Services / Launch Services. EADS-ST is active in the field of launch services through its shareholdings in Ariespace (for heavy-lift launchers), Starsem (for medium-lift launchers) and Eurockot (for small-lift launchers).

Ariespace — EADS-ST, with a 28.7% stake in Ariespace (direct and indirect), is Ariespace's second-largest shareholder (after CNES) and its largest industrial shareholder. Ariespace is the world's largest commercial launch service provider in terms of total order book. At the end of 2005, Ariane had launched 232 satellites. Ariespace markets and sells the Ariane launcher worldwide and carries out launches from the Kourou space centre in French Guyana.

In 2005, Ariespace won five new commercial contracts, representing 30% of the accessible market. It also won two governmental launch contracts in 2005. Five Ariane 5 launches were carried out in 2005, placing into orbit eight satellites (six commercial and two institutional).

Two versions of Ariane 5 are currently in service: the Ariane 5G, which is able to launch one or more payloads with a total mass of up to 6.9 tons into geostationary transfer orbit, and the Ariane 5 ECA, which will progressively replace the Ariane 5G. The Ariane 5 ECA is now fully qualified after two successful launches in February and November 2005 and has an increased launch capacity of 10 tons in geostationary transfer orbit. Since 1999, when the first Ariane 5 commercial launch occurred, 20 Ariane 5 rockets have been successfully launched.

In May 2004, a contract valued at €3 billion was signed between Ariespace and EADS-ST for the delivery of 30 increased lift versions of Ariane 5. EADS-ST's prime position has been confirmed with the award by ESA of the so-called slice 10 development contract in October 2005. In parallel, Europe's commitment to support a European launcher was demonstrated by the signature between ESA and Ariespace of the "European Guaranteed Access to

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Space” (EGAS) in March 2004 and by the December 2005 “buy European” recommendation of the Space Ministerial Conference in respect of institutional satellite launch services.

Starsem — EADS-ST directly owns 35% of Starsem, a French corporation, along with Arianespace (15%), the Russian space agency (25%) and the Russian state-owned Central Specialised Design Bureau “Progress” (25%). Through Arianespace, Starsem markets launch services by Soyuz launchers for medium-weight spacecrafts into low or sun-synchronous orbits as well as for interplanetary missions. In 2005, two additional contracts have been signed and two institutional launches have been performed from Baikonur, as well as a commercial launch under a subcontract from Arianespace. Following the ESA Ministerial Conference in May 2003, which approved the offering of Soyuz launches from Kourou, work began on the launch pad, and the first launch, which will be operated by Arianespace, is scheduled for 2008.

Eurockot — EADS-ST (51%) and Khrunichev (49%) jointly control Eurockot Launch Services, which procures launch services for small, low-earth orbit satellites with Rocket launchers derived from the SS-19 ballistic missiles. In 2005, Eurockot signed the Theos contract with Thailand and the Proba 2 contract for ESA. One launch has occurred (Cryosat for ESA), but was unsuccessful. The root cause of the failure has been identified and corrected.

Products and Services / Commercial Launchers. EADS-ST manufactures launchers and performs research and development for the Ariane programmes. Member states, through ESA, fund the development cost for Ariane launchers and associated technology. Arianespace markets and sells launch services worldwide.

In 2005, efforts were focused on the qualification of the 10-ton version of Ariane and the implementation of the organisation of Ariane production under a single prime contract, in accordance with the decisions of the ESA ministerial conferences in November 2001 and May 2003.

Following the successful flights in February and November 2005, the 10-ton version of Ariane 5 (Ariane 5 ECA) is now fully qualified. Regarding the streamlining and rationalisation of the Ariane organisation, the leadership of EADS-ST has been confirmed and the company is poised for development (signature of the so-called slice 10 development

contract with ESA in 2005) and production (signature of the PA batch for 30 Ariane 5 rockets in 2004).

EADS-ST management remains committed to reducing production costs and to optimising, together with Arianespace, the Ariane system.

Products and Services / Ballistic Missiles. EADS-ST is the only company in Europe that designs, manufactures, tests and maintains ballistic missiles. Under its contracts with the French State, EADS-ST has produced the submarine launched MSBS family (M1, M2, M20, M4 and M45) and launch facilities at the Brest naval base. The M45 is deployed onboard France’s new-generation nuclear-powered ballistic missile submarine. The Company manages the operational maintenance of the M45 missile system, assisting the French armed forces during test firing and with missile integration until the end of its operational service. EADS-ST is under contract to develop the M51, a new submarine-based strategic missile system with increased technical and operational capabilities. At the end of 2004, the French MoD awarded EADS-ST a contract for the M51 production phase and test range facilities with a frame-contract in excess of €3 billion. A contract for an enhanced upper-stage demonstrator was awarded by the French MoD at the end of 2005, contributing to the technical capabilities of the Company in this field.

Management believes that the development and production of the M51 will provide EADS-ST with high quality work over the long term. In addition, the relative predictability of demand provides some stability to the otherwise volatile launcher market.

Space Services – EADS SPACE Services

Overview

EADS SPACE Services, which includes Paradigm, is a dedicated entity of EADS SPACE for the development and operation of satellite services, with a focus on secured telecommunication and navigation services. The first commercial provider of secure military communications services with the Skynet 5 programme for the U.K. MoD, Paradigm currently owns and operates the Skynet 4 system. Paradigm enlarged its customer base through contracts with NATO, Portugal and several other governments. In the navigation sector, the iNavSat consortium (EADS SPACE

Services, Inmarsat and Thales) has merged with the Eurely consortium (Alcatel-Alenia Space, Finmeccanica, Hispasat and AENA), together with a third entity (TeleOp), merged, in order to propose to the Galileo Joint Undertaking (ESA and European Commission) a unified solution for the concession phase. The Galileo Joint Undertaking is expected to finalise the concession contract in 2006.

EADS SPACE Services also manages holdings in satellite telecommunication service and operation companies: Nahuelsat in Argentina, Globalstar in Brazil and Hispasat and Hisdesat in Spain.

Products and Services

Military Communications. The U.K. MoD selected Paradigm in 2003 to deliver global secure satellite communications service over a 15-year period for its next-generation Skynet 5 programme under a Private Finance Initiative contract. In addition, Paradigm took over the U.K.'s existing Skynet 4 fleet. This groundbreaking contract, under which Paradigm now owns and operates the U.K. military communication satellite infrastructure, allows the U.K. MoD to place orders and to pay for services as required. Offering a catalogue of services, Paradigm delivers tailored in-theatre and back-to-base communication solutions for voice, data and video services, ranging from a single voice channel to a complete turnkey system incorporating terminals and network management. Paradigm also provides welfare services, ensuring that deployed troops can call home and can use the Internet. Following discussions in 2005, the concession period should be extended to 20 years and the number of new satellites should be increased to 3 instead of 2. Full operational service is scheduled for the end of 2008 or the beginning of 2009.

In 2004, the German *Bundeswehr* issued a proposal request for secure satellite communication capacity, comprising a complete military satellite communication infrastructure, including a fleet of satellites, a number of tactical and strategic ground stations and a network control in the system, to be operated on their behalf for a 10-year period. The system is expected to be fully operational in the beginning of 2009. In response to this proposal request, EADS SPACE Services has set up a satellite provider

consortium with ND SatCom and Astrium. This consortium was selected in May 2005, and it is expected that the contract will be awarded beginning 2006, following German parliamentary approval.

Navigation. The iNavSat consortium (EADS SPACE Services, Inmarsat and Thales) and the EUrely consortium (Alcatel-Alenia Space, Finmeccanica, Hispasat and AENA), together with a third entity (TeleOp), merged, in order to propose to the Galileo Joint Undertaking (ESA and European Commission) a unified solution for the concession phase. The Galileo Joint Undertaking is expected to award the concession contract in 2006. Under this concession contract, the Galileo operating company will deploy and operate the satellite system over a 20-year period. The Galileo project is a major step forward for Europe, representing the first major European-level infrastructure procurement programme with a global dimension that will bring numerous benefits to the continent and the rest of the world. The market potential is promising, as global demand for satellite navigation services and derivative products is growing at approximately 25% a year.

Production and Suppliers

EADS SPACE currently operates production facilities located in France (Vélizy, Les Mureaux, Bordeaux, Toulouse), Germany (Backnang, Bremen, Friedrichshafen, Lampoldshausen, Ottobrunn, Rostock, Trauen), Spain (Madrid), the United Kingdom (Portsmouth, Stevenage) and French Guyana (Kourou).

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1.1.7 Other Businesses

Regional Aircraft — ATR

ATR is a world leader in the market for regional turboprop aircraft of 40 to 70 seats. ATR Integrated is a consortium composed of EADS and Alenia, in which they each hold a 50% stake. The BU EADS ATR, that represents EADS' 50% share of ATR Integrated and that was formerly part of the Aeronautics Division, is now under the direct responsibility of EADS' CFO and co-COO.

Market and Outlook

The regional aircraft industry has experienced concentration in recent years. During the 1990s, a number of manufacturers merged, closed or ceased production of regional aircraft, leading to the withdrawal from the market of BAE Jetstream, Beechcraft, Fokker, Saab and Shorts. As of 31st December 2005, the worldwide market for turboprop aircraft of 40-70 seats in production was dominated by two manufacturers: ATR and Bombardier. After a number of years of relatively low activity, the regional turboprop market grew dramatically in 2005, due in large part to the advantages of turboprop aircraft over jet aircraft in terms of fuel efficiency and CO₂ emissions. In 2005, ATR delivered 15 new aircraft and registered orders for 90 new aircraft (in addition to a very active second-hand market). ATR's 2005 orders largely surpassed the number of orders received by its direct competitor, and represented six times ATR's 2004 order level. ATR has been particularly successful in rapidly growing markets, such as India. Furthermore, the relative fuel efficiency and reduced CO₂ emissions of turboprop engines are expected to sustain this market tendency and the evolution of ATR's market share over the coming years.

Products and Services

ATR 42 and ATR 72 Series Aircraft. Commencing with the ATR 42, which entered service in 1985, ATR has developed a family of high-wing, twin turboprop aircraft in the 40-70 passenger market that are designed for optimal efficiency, operational flexibility and comfort. In 1996, in order to respond to operators' increasing demands for comfort and performance, ATR launched a new generation

of aircraft designated the ATR 72-500 and ATR 42-500. Like Airbus, the ATR range is based on the family concept, which provides for savings in training, maintenance operations, spare parts supply and CCQ.

Customer Service. ATR has established a worldwide customer support organisation committed to supporting the aircraft over its service life. Service centres and spare parts stocks are located at Toulouse, in the vicinity of Washington D.C. and in Singapore. An e-market place designed to enhance support services developed with Embraer was made available to customers.

ATR Asset Management. Consistent with industry practice, a significant portion of orders received by ATR is conditional on its assistance in financing the purchase either through leasing or loan guarantee arrangements. The ATR Asset Management manages the resulting risk and responds to the growing market for second-hand aircraft. By assisting in the placement and financing of used and end-of-lease aircraft, ATR Asset Management has helped broaden ATR's customer base, notably in emerging markets, by providing quality reconditioned aircraft at attractive prices and has helped maintain residual values of used aircraft. In the past, clients for such used aircraft have subsequently purchased new aircraft as they have gained experience in the operation of ATR turboprops. Returned aircraft generally remain out of service for approximately five months awaiting reconditioning and resale or leasing, subject to market conditions. ATR has been successful in implementing its strategy of consistent reduction of sales financing exposure.

Production

The ATR production facilities are located near Naples, Italy and at Merignac and Saint-Martin near the Toulouse airport in France. Final assembly, flight-testing, certification and delivery occurs at the Toulouse site. ATR outsources certain areas of responsibility to the Airbus Division, including wing design and manufacture, flight-testing and information technology.

General Aviation

EADS Socata

EADS Socata manufactures a range of light aircraft for both the private civil aircraft market and governmental fleet, and is also engaged in aerostructure subcontracting, and producing materials and subassemblies for major international aviation programmes, including, but not limited to, EADS' programmes.

In the general aviation field, EADS Socata has developed over the past 20 years a range of piston engine aircraft, the TB family, and the monoturbo-prop pressurised TBM 700. Continuous development and use of innovative technologies keep these products well-positioned on their market. These new-generation aircraft compete with products based on models that date back to the 1950s. Many aircraft in the general aviation market are nearing the end of their service life. To improve its penetration of the U.S. market, which represents 60% of its general aviation sales, EADS Socata is developing an U.S. distributor network.

Since launching its aerostructures activity in the early 1960s, EADS Socata has positioned itself as a first-line global subcontractor for complete assemblies. Its engineering department carries out development and design for key components for major aviation programmes, including Airbus (A400M, A380...), Dassault (F7X), Eurocopter and Embraer. EADS Socata is experienced in the use of sheet metal forming and stretching, composite materials and semi-manual structural assembly for aeronautic programs. EADS Socata is also experienced in the use of composite materials for aircraft structural elements; in particular for the Airbus A330 / A340, as well as metal-composite combination technology and forming of large-dimension metal panels. Additionally, EADS Socata carries out design work for a number of European aviation programmes, including Airbus, Eurocopter, Mirage and Falcon aircraft.

Global Support Solutions

EADS Sogerma

With 25% of its employees located outside of Europe, and 11 locations worldwide, EADS Sogerma is internationally present. It focuses primarily on two business lines: (1) global support and maintenance, and (2) aircraft and cabin customisation and aerostructures, primarily for Airbus.

Global Support and Maintenance. EADS Sogerma provides global support solutions such as engineering, fleet management and airframe and components maintenance services. These services are carried out in facilities in Bordeaux, France; Lake Charles, U.S.; and Monastir, Tunisia. EADS Sogerma also provides maintenance services for military transport aircraft, including C-130 checks in Casablanca, Morocco.

EADS Sogerma also specialises in small engines (SECA in Le Bourget, France), landing gear, auxiliary power units ("APU") (in Rouen, France) and avionics maintenance, repair and overhaul ("MRO") (Bordeaux, France; Miami, Florida; and Hong Kong).

Aircraft & Cabin Customisation and Aerostructures. EADS Sogerma is an approved outfitter for Airbus' corporate jets, with services currently performed in Toulouse and in Bordeaux. Additionally, Bordeaux has dedicated hangar bays for large aircraft VIP completion. EADS Sogerma designs and manufactures high-end cabin interior components and first and business class passenger seats. Aircraft customisation also includes military transport and mission aircraft (e.g., C-130 life extension).

In the aerostructures field, EADS Sogerma is involved in the design and manufacture of fuselage panels and sections for Airbus aircraft and in composite components for aeronautical and general industrial applications. Metal work is conducted in Rochefort, France, while composites activities are conducted in France and Canada.

Aircraft Conversion and Floor Panels

EADS is a major provider of aircraft conversion and technical services for airlines.

In the fields of aircraft conversion and technical services, EADS combines the operations of EADS Sogerma Services and *Elbe Flugzeugwerke GmbH* ("EFW"). Management believes that the concentration of expertise in a stable pool of highly skilled workers enables EADS' aircraft conversion and technical services group to perform services on a wide range of aircraft, including all of the aircraft produced by EADS. Additionally, the exchange of skilled workers in response to cyclical variations in the market occurs increasingly within the aircraft conversion and technical services group, generating synergies. Moreover, EADS can

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use knowledge gained through maintaining Airbus aircraft to improve initial product quality and reduce maintenance costs.

In the field of commercial aircraft technical services, knowledge exchange within EADS will benefit maintenance of early-generation Airbus aircraft and facilitate maintenance activities for newer aircraft such as the A320 or A330 / A340. Management believes that integrated packages, designed to meet customers' full range of service requirements, will be particularly attractive to small and medium-sized airlines.

Management believes that joint marketing of maintenance and conversion work has been beneficial, since EADS has been retained to perform maintenance for a large number of converted aircraft.

Commercial Aircraft Conversion — EFW

Conversion of passenger aircraft into freighter aircraft (“P to F”), is the modification most proposed to commercial aircraft owners. Conversion kits comprise original parts, known as Original Equipment Manufacturer or ‘OEM’ parts from the corresponding Airbus serial freighter versions, and result in a converted aircraft that is very similar to a freighter from the series production.

Market. The market for civil aircraft freighter conversion encompasses freight service airlines such as UPS or Federal Express, airlines with small aircraft fleets and finance groups. Two considerations drive the aircraft operators' decision to convert existing passenger aircraft to freighters: first,

conversion is the most efficient way to obtain a relatively modern freighter; second, it maintains residual values of the aircraft at relatively high levels by extending revenue-generating service life.

According to Airbus 2004 estimates, airfreight is expected to grow faster than passenger traffic in the next 20 years. Given the retirement of older aircraft, an estimated 3,100 dedicated cargo aircraft should meet this demand, of which roughly 75% would come from the conversion of passenger aircraft.

EADS' main competitor in the freighter conversion business is Boeing, which now offers P to F conversions for its complete range of aircraft except B777 and ex-MD aircraft. With BAE Services' discontinuation of its A300 B4 and A300-600 conversion programmes, EFW has a strong market position for Airbus P to F conversions.

Products. In the field of P to F conversions, EADS specialises in the conversion of Airbus A300 and A310 passenger aircraft to cargo usage. EADS is building on this specialisation by adding versions such as, in 2001, the A310-300, and in 2002, the A300-600, to position itself for future upcoming conversion programmes. In addition to Airbus freighter conversions, EFW is also the supplier of Airbus passenger cabin floor panels for all Airbus models.

1.1.8 Investments

Dassault Aviation

EADS holds a 46.3% stake in Dassault Aviation – listed on the Marché Eurolist of Euronext Paris – along with Groupe Industriel Marcel Dassault (“GIMD”) 50.2% and free float 3.5%.

Dassault Aviation is a major player in the world market for military jet aircraft and business jets. Founded in 1945, Dassault Aviation has delivered more than 7,500 military and civil aircraft to purchasers in more than 75 countries. On the basis of its experience as designer and industrial architect

of complex systems, Dassault Aviation designs, develops and produces a range of military aircraft and business jets. In order to avoid any potential conflict between the military products of Dassault Aviation and EADS (Rafale and Eurofighter) and to facilitate a “Chinese wall” approach, EADS' Dassault Aviation shareholding is managed by Strategic Coordination, whereas the Eurofighter program is managed by EADS' Defence & Security Division.

Military Aircraft

Dassault Aviation offers a wide expertise in the design and manufacture of latest generation military combat aircraft.

Rafale. The Rafale is a twin-engine, omni-role combat aircraft developed for both Air Force and Navy applications. According to government budgetary documents, France is considering the acquisition of 294 Rafale, 234 for the Air Force and 60 for the Navy, for a total program cost of €32.3 billion. 120 aircraft have already been ordered; of these, 82 are destined to the Air Force, and 38 to the Navy.

Mirage 2000. The Mirage 2000 family has reached in 2005 the end of its production phase. More than 600 Mirage 2000 aircraft have already been ordered, nearly half of them by foreign countries.

nEUROn. Dassault Aviation is the prime contractor for the development of Europe's UCAV (Unmanned Combat Air Vehicle) demonstrator, nEUROn. The program was open to European cooperation and five countries have decided to join it and share the skills of their aerospace industries. Agreements have been signed in 2005 with Sweden, Greece, Switzerland, Spain and Italy at Government levels and MoUs have been agreed upon on Saab, HAI, RUAG, EADS and Alenia at the industrial level.

The nEUROn demonstrator is scheduled to fly in 2011.

Business Aircraft

Dassault Aviation offers a wide range of products at the top end of the business jet sector. Over 1,650 Falcon business jets have been delivered since the first Falcon 20 delivery in 1965. In-service Falcons currently operate in over 65 countries worldwide, filling corporate, VIP and government transportation roles. The family of Falcon jets currently includes four tri-jets: the Falcon 50EX, 900C, 900EX and 7X; the twin-engine Falcon 2000 and the Falcon 2000EX EASy.

The year 2005 was the best ever for the Falcon business jets with a total of 123 firm orders and a total backlog of more than 200 aircraft at year-end. Several significant milestones were also achieved: May saw the first flights of Falcon 7X and 900DX, and in 2005 the new 2000DX was launched.

Dasa-Dornier Luftfahrt

DADC, which is 75% held by EADS, holds a 93.6% stake in Dornier GmbH, which in turn holds a 1.58% stake in the capital of Fairchild Dornier Luftfahrt Beteiligungs GmbH, which is the sole shareholder of Dornier Luftfahrt GmbH. Through this minority interest, EADS is not involved in any business decision regarding Dornier Luftfahrt.

1.1.9 Insurance

EADS Insurance Risk Management ("IRM"), centralised at EADS headquarters, is responsible for all corporate insurance activities and related protection for the Group. It includes identification, evaluation, prevention and protection of insurable risks. Insurance techniques are used to protect the assets and liabilities of EADS against financial consequences due to unexpected events. Harmonized insurance policies and standards are in place for all insurance risks underwritten by the Group.

An information and reporting system is in place to enable IRM, in close conjunction with insurance managers named by the EADS business Divisions and BUs, to respond to insurance related risks of the Group. EADS pursues an insurance risk management strategy that includes operating

procedures as well as policies regarding procurement and sales agreements. A systematic review and monitoring procedure of protections systems applicable to all EADS sites is in place, fostering comprehensive and timely identification of risks and related adjustments of insurance coverage.

EADS' insurance programs cover high risk (Core) and low risk (Non-Core) exposures.

Core Insurance Policies underwritten by IRM for the Group cover risks such as:

- Property Damage and Business Interruption;
- Aviation Third Party Liabilities including Product Liabilities;

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- Manufacturer's Aviation Hull Insurance up to the replacement value of each aircraft;
- Space Third Party Liabilities including Product Liabilities;
- Commercial General Liabilities including non-aviation and non-space Product Liabilities and risks related to environmental accidents; and
- Directors & Officers Liability.

Claims related to Property Damage are covered up to a limit of €2 billion per loss and €2 billion as an annual aggregate. Aviation Liability Coverage is provided up to a limit of €2 billion per loss, with an annual aggregate cap of €2 billion for product liability claims. Certain sub limits are applicable for Core Insurance Policies as outlined above.

Non Core Insurance Policies cover risks such as:

- Personal Accidents;
- Company Automobiles;
- Personal and property exposures during business trips; and
- Life insurance.

Insurance amounts for Non Core Insurance Lines are covered up to respective sums and replacement values.

EADS follows a policy of obtaining external insurance coverage for all main and individual risks that can be insured at reasonable rates, on sufficient terms and limits provided by the international insurance markets. All insurance policies are required to satisfy EADS' mandatory standards of insurance protection.

However, to be more independent from volatilities of the insurance markets, EADS uses the capabilities of a corporate-owned reinsurance captive with respect to the Property Damage, Business Interruption Programme and Aviation Insurance Programme. The captive is sufficiently capitalised and protected so as to ensure its ability to reimburse claims without limiting the scope of coverage of the original insurance policies and not additionally exposing financial assets of EADS.

The insurance industry is still undertaking efforts to reduce its overall exposure. These efforts include increasing premiums, raising deductible amounts and limiting the scope of coverage. Furthermore, the number of insurers underwriting industrial risks is still shrinking. No assurance can be given that EADS will be able to maintain its current levels of coverage on similar financial terms in the future.

1.1.10 Legal and Arbitration Proceedings

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

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

Following its unilateral withdrawal from the 1992 E.U.-U.S. Agreement on Trade in Large Civil Aircraft,

the U.S. lodged a request on 6th October 2004 to initiate settlement proceedings before the World Trade Organisation ("WTO"). In response, the E.U. launched a parallel WTO case against the U.S. in relation to its subsidization of Boeing. On 11th January 2005, the E.U. and the U.S. agreed to suspend their respective WTO cases for three months, with a view towards reaching a new agreement relating to public funding of large civil aircraft. However as of 11th April 2005, the parties had not been able to reach a satisfactory agreement. On 31st May 2005, the U.S. requested the establishment of a panel. At its meeting on 20th July 2005, the Dispute Settlement Body established the panels. On 17th October 2005, the panels were finally composed. On 22nd December 2005, the parties completed the formal fact finding process for the two proceedings (so-called ASCM Annex V). The E.U. filed a new panel request in its case on 20th January 2006. Then on 31st January 2006, the U.S. filed a new consultation

request on its case. These latest developments mean that the formal litigation process which was originally set to begin in March 2006 will now be set back to two to four months. Exact timing of the WTO litigation process is still to be agreed through negotiations between the U.S. and the E.U.

EADS is not aware of any other exceptional items or pending or threatened governmental, legal or arbitration proceedings during the last twelve months, that may have, or may have had in a recent period, a significant effect on the financial position, the activities or the results of EADS or the Group taken as a whole, except as stated above.

EADS recognises provisions for litigation and claims when (i) it has a present obligation from legal actions, governmental investigations, proceedings and other claims resulting from past events that are pending or may be instituted or asserted in the future against the Group, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle such obligation and (iii) a reliable estimate of the amount of such obligation can be made. For the amount provided for risk due to litigations and claims, see Part 1 “Notes to the Consolidated Financial Statements (IFRS)— Note 21(d): Other provisions”.

1.1.11 Incorporation by Reference

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

- “Part 2/1.1 Presentation of the EADS Group” of the *Document de Référence* filed in French with the *Autorité des marchés financiers* on 1st April 2004 and filed in English with the Chamber of Commerce of Amsterdam; and
- “Part 2/1.1 Presentation of the Group” of the *Document de Référence* filed in French with the *Autorité des marchés financiers* on 19th April 2005 and filed in English with the Chamber of Commerce of Amsterdam.

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

1.2 Recent Developments

DaimlerChrysler and Lagardère have reduced their respective stakes in EADS by 7.5%

On 4th April 2006, DaimlerChrysler and Lagardère announced the entry into simultaneous transactions aimed at reducing by 7.5% each their respective shareholdings in EADS.

DaimlerChrysler entered into a forward sale agreement of approximately 61 million EADS shares with a group of investment banks. The DaimlerChrysler Group indicated that it lent these shares to the banks in anticipation of the settlement of the forward sale.

Lagardère issued mandatory exchangeable bonds subscribed by IXIS Corporate & Investment Bank. In turn, IXIS Corporate & Investment Bank sold a large majority of the underlying shares to a group of French institutional investors. The EADS shares deliverable at the maturity of the bonds will represent a maximum of 7.5% of the share capital of EADS, or approximately 61 million EADS shares. These transactions have not impacted the balance of control between the core shareholders in EADS' corporate governance as set forth in the shareholder agreements described in Section 3.3.2.

EADS and BAE Systems enter into early stages of a discussion on the potential disposal of BAE Systems' 20 percent share in Airbus

On 7th April 2006, EADS confirmed that it was entering into the very early stages of a discussion on the potential disposal of BAE Systems' 20 percent stake in Airbus.

EADS believes that increasing its stake in Airbus holds the potential of simplifying Airbus governance. EADS is fully prepared to move ahead constructively.

The initiation of discussions with BAE Systems does not represent an exercise of the put option held by BAE Systems in relation to its 20% stake in Airbus. EADS intends to work

diligently together with BAE Systems towards establishing a value for this 20% stake that is fair to both parties. The schedule of the discussions cannot be anticipated and there can be no certainty as to their outcome.

Spanish Ministry of Interior Selects the EC135 for its Police Forces

On 17th March 2006, the Spanish Government announced the launch of an acquisition programme for the modernisation of its security forces. Under this programme, the Spanish Ministry of Interior intends to acquire 51 EC135 helicopters from Eurocopter in order to modernize the Guardia Civil's and the Cuerpo Nacional de Policía's existing helicopter fleets within the next eight years. Eurocopter España will carry out the EC135's final assembly activities, develop and install the highly innovative mission-specific equipment, and execute the concluding ground and flight tests. To this end, an assembly line for the EC135 will be established in Albacete at the local Eurocopter España site.

Successful Integration of LFK into MBDA Completed

On 28th February 2006, the integration of LFK GmbH into the European missile systems group MBDA received clearance from the European Commission and the German Ministry of Economics and Technology. The legal formalities in connection with this operation were also successfully completed. MBDA's new German component will retain LFK GmbH's legal name and MBDA's brand. It will operate under principles of operation and processes mirroring those of MBDA while servicing Germany, Europe's third largest missile market.

A300 / A310 Final Assembly to be Phased Out by July 2007

On 7th March 2006 Airbus announced that the A300/A310's final assembly will progressively be phased out. This

announcement follows more than 35 years of successful marketing and production of Airbus' original aircraft programme. The A300/A310 programme has achieved a total of 821 orders, and 802 aircraft had been delivered by the end of January 2006. The order backlog comprises A300 freighter aircraft to be delivered to FedEx, UPS and Galaxy Airlines. The last A300-600 aircraft on order will be delivered in July 2007. Airbus plans to offer new freighter versions of current aircraft once the A300/A310 programme has ended.

During the last two years, approximately 150 Airbus employees produced roughly one aircraft per month on the A300/A310's final assembly line. All employees involved in the A300/A310 production will be offered new positions in other current or future programmes.

U.S. Government Orders Helicopters to Support Homeland Security Missions

On 26th February 2006, EADS North America announced that the U.S. Department of Homeland Security Customs and Border Protection had ordered 10 Light Sign Cutter EC120 helicopters from American Eurocopter, an EADS North America BU. This represents the first such order pursuant to a contract entered into with the Department of Homeland Security, and it could involve as many as 55 helicopters, with a potential total value of up to U.S.\$75 million. American Eurocopter will produce the Department of Homeland Security Customs and Border Protection's EC120s at American Eurocopter's new Columbus, Mississippi facility.

The Department of Homeland Security Customs and Border Protection is to receive its first EC120 in June for deployment on America's southwest border with Mexico. In order to meet this challenging schedule, three EC120s already are in production. The remaining aircraft will be delivered at the rate of one helicopter every 30 days.

Indian Airlines Signs Contract For 43 Airbus A320 Family Aircraft

On 20th February, 2006, Indian Airlines Ltd, India's leading airline, signed a contract for 43 Airbus A320 family aircraft. Indian Airlines Ltd. has ordered 43 Airbus A320 Family aircraft, comprising twenty A319s, four A320s and nineteen A321s. The contract represents the first commitment from an Indian carrier for the Airbus A321 aircraft, marking a significant breakthrough for EADS.