Year 2004 Report

Unaudited Condensed IFRS Consolidated Financial Information of EADS N.V. for the year 2004

Unaudited Condensed IFRS Consolidated Income Statements

	January 1 - December 31, 2004		January 1 - December 31, 2003		Deviation	
	M €	%	M €	%	M €	%
Revenues	31,761	100	30,133	100	1,628	5
Cost of sales	-25,510	-80	-24,594	-82	-916	4
Gross margin	**6,251**	**20**	**5,539**	**18**	**712**	**13**
Selling, administrative & other expenses	-2,296	-7	-2,985	-10	689	-23
thereof amortization of goodwill and related impairment losses	*0*	*0*	*-567*	*-2*	*567*	*-100*
Research and development expenses	-2,126	-7	-2,189	-7	63	-3
Other income	314	1	196	1	118	60
Income from operating activities	**2,143**	**7**	**561**	**2**	**1,582**	**282**
Financial result	-246	-1	131	0	-377	-288
Income taxes	-664	-2	-474	-1	-190	40
Profit from ordinary activities	**1,233**	**4**	**218**	**1**	**1,015**	**466**
Minority interests	-203	-1	-66	0	-137	208
Net income	**1,030**	**3**	**152**	**1**	**878**	**578**
	€		€		€	
Earnings per share						
Basic	1.29		0.19		1.10	
Diluted	1.28		0.19		1.09	

Unaudited Condensed IFRS Consolidated Balance Sheets

	December 31, 2004		December 31, 2003		Deviation	
	M €	%	M €	%	M €	%
Fixed assets						
Intangible assets	10,008	17	9,694	17	314	3
Property, Plant and Equipment	12,905	22	11,448	21	1,457	13
Financial Assets	4,090	7	4,129	8	-39	-1
	27,003	46	25,271	46	1,732	7
Non-fixed assets						
Inventories	3,075	5	3,279	6	-204	-6
Trade receivables	4,406	8	4,001	7	405	10
Other receivables and other assets	11,105	19	10,280	19	825	8
Securities	466	1	468	1	-2	0
Cash and cash equivalents	8,718	15	7,404	14	1,314	18
	27,770	48	25,432	47	2,338	9
Deferred taxes	2,543	4	2,724	5	-181	-7
Prepaid expenses	951	2	951	2	0	0
Total assets	**58,267**	**100**	**54,378**	**100**	**3,889**	**7**
Shareholders' equity						
Capital Stock	810	1	813	1	-3	0
Reserves	10,254	18	9,589	18	665	7
Accumulated other comprehensive income	6,086	10	5,934	10	152	3
Treasury shares	-177	0	-187	0	10	-5
	16,973	29	16,149	29	824	5
Minority interests	2,370	4	2,179	4	191	9
Provisions	8,573	15	8,726	16	-153	-2
Liabilities						
Financial liabilities	5,126	9	4,767	9	359	8
Trade liabilities	5,860	10	5,117	9	743	15
Other liabilities	13,240	23	11,318	21	1,922	17
	24,226	42	21,202	39	3,024	14
Deferred taxes	4,134	7	3,664	7	470	13
Deferred income	1,991	3	2,458	5	-467	-19
Total liabilities and shareholders' equity	**58,267**	**100**	**54,378**	**100**	**3,889**	**7**

Unaudited IFRS Consolidated Cash Flow Statements

	January 1 - December 31, 2004	January 1 - December 31, 2003
	M €	M €
Net income	1,030	152
Income applicable to minority interest	203	66
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization of fixed assets	1,621	2,375
Valuation adjustments and CTA release	-200	263
Deferred tax expenses (income)	537	-138
Results on disposals of fixed assets/businesses and results of associates (equity method)	-96	-274
Change in provisions	-237	246
Change in other operating assets and liabilities	2,155	2,019
Cash provided by operating activities	**5,013**	**4,709**
Purchases of intangible and fixed assets	-3,017	-2,672
Proceeds from disposals of intangible and fixed assets	36	47
Acquisitions of subsidiaries (net of cash)	-100	-92
Proceeds from disposals of subsidiaries (net of cash)	0	32
Payments for investments in other financial assets	-482	-728
Proceeds from disposals of other financial assets	492	346
Increase in equipment of leased assets	-656	-279
Proceeds from disposals of leased assets	74	8
Increase in finance lease receivables	-261	-443
Decrease in finance lease receivables	110	84
Dividends paid by companies valued at equity	36	38
Change in securities	10	336
Change in cash from changes in consolidation	9	-152
Cash used for investing activities	**-3,749**	**-3,475**
Change in financial liabilities	474	1,132
Cash distribution paid to shareholders	-320	-240
Dividends paid to minorities	-64	-38
Capital increase	43	21
Purchase of treasury shares	-81	-31
Others	0	8
Cash provided by financing activities	**52**	**852**
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents	-2	-83
Net increase in cash and cash equivalents	**1,314**	**2,003**
Cash and cash equivalents at beginning of period	**7,404**	**5,401**
Cash and cash equivalents at end of period	**8,718**	**7,404**

In 2004, cash flow from changes in securities included in investing activities increased due to comprised sales of securities by 10 M € (2003: sales of securities of 336 M €). These medium-term securities are included in Securities as stated in the balance sheet.

As of December 31, 2004, EADS' cash position (stated as cash and cash equivalents in the unaudited consolidated cash flow statements) includes 687 M € (273 M € as of December 31, 2003) representing the amount Airbus has deposited at BAe Systems. Additionally included are 602 M € and 613 M € as of December 31, 2004 and 2003, respectively, which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAe Systems and Finmeccanica. These funds are available for EADS upon demand.

Unaudited Condensed IFRS Consolidated Statements of Changes in Shareholders' Equity

	M €
Equity as of January 1, 2004	**16,149**
Capital increase	43
Net income	1,030
Cash distribution to shareholders	-320
Purchase of treasury shares	-81
OCI	152
Equity as of December 31, 2004	**16,973**
Equity as of January 1, 2003	**12,765**
Capital increase	21
Net income	152
Cash distribution to shareholders	-240
Purchase of treasury shares	-31
OCI	3,482
Equity as of December 31, 2003	**16,149**

Explanations to the Unaudited Condensed IFRS Consolidated Financial Information as at December 31, 2004

1. The Company

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

2. Change in accounting policies

End of March 2004, the IASB completed Phase I of its ongoing Business Combinations Project and adopted new IFRS 3 "Business Combinations", superseding IAS 22 "Business Combinations", as well as revised Standards IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets". EADS decided to early adopt IFRS 3, revised IAS 36 and IAS 38 and to apply these standards as of January 1, 2004 mainly due to the abolishment of goodwill amortization. Consequently, EADS changed its accounting policies regarding the accounting for impairment testing, intangible assets and business combinations with an agreement date after December 31, 2003. This has been done prospectively in accordance with transitional provisions required by IFRS 3, IAS 36 and IAS 38.

Until December 31, 2003, goodwill was amortized on a straight line basis over a period ranging from five to 20 years and assessed for an indication of impairment at each balance sheet date.

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

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

Except for IFRS 3, IAS 36 and IAS 38, EADS has abandoned the option to early adopt any of the new, revised or amended standards or interpretations before they become effective.

3. Changes in the consolidation perimeter of EADS

On October 4, 2004, the Group acquired RIG Holdings, Inc., Delaware / United States together with its subsidiaries Racal Instruments US and Racal Instruments Group Ltd. from RIG Holdings, LP, Delaware in the amount of 105 M US$ cash and debt free. EADS has agreed with the sellers to an earn out formula whereby the Group pays up to an additional 25 M US$ for guaranteed future order intake until June 30, 2005.

Apart from this transaction, other acquisitions or disposals by the Group were not material.

4. Segment information

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

- *Airbus* — Development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats and the development and manufacturing of aircraft for military use.
- *Military Transport* — Development, manufacturing, marketing and sale of military transport aircraft and special mission aircraft.
- *Aeronautics* — Development, manufacturing, marketing and sale of civil and military helicopters, regional turboprop aircraft and light commercial aircraft; and civil and military aircraft conversion and maintenance services.

- *Defence & Security Systems* — Development, manufacturing, marketing and sale of missiles systems; military combat and training aircraft; and provision of defence electronics, defence-related telecommunications solutions; and logistics, training, testing, engineering and other related services.
- *Space* — Development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers; and provision of launch services.

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

in M €	Airbus	Military Transport	Aero-nautics	Defence & Security Systems	Space	HQ/ Conso.	**Consoli-dated**
Year ended December 31, 2004							
External revenues	20,224	1,304	3,876	5,385	2,592	-1,620	**31,761**
Research and development expenses	1,734	26	68	185	61	52	**2,126**
EBIT pre goodwill amort. and exceptionals (see definition below)	1,922	26	206	228	10	52	**2,444**
Year ended December 31, 2003							
External revenues	19,048	934	3,803	5,165	2,424	-1,241	**30,133**
Research and development expenses	1,819	23	62	223	62	0	**2,189**
EBIT pre goodwill amort. and exceptionals (see definition below)	1,353	30	217	171	-400	172	**1,543**

5. EBIT pre goodwill amortization and exceptionals

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

A reconciliation from Income from operating activities to EBIT pre goodwill amortization and exceptionals is set forth in the following table (in M €):

in M €	January 1-Dec. 31, 2004	January 1-Dec. 31, 2003
Income from operating activities	**2,143**	**561**
Income from investments	84	186
Goodwill and exceptionals:		
Goodwill amortization and related impairment charges	0	567
Fair value adjustment	217	229
EBIT pre goodwill amortization and exceptionals	**2,444**	**1,543**

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

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

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

6. Significant profit and loss statement items

EADS Group **revenues** reached 31,761 M €, which is compared with 2003 an increase of 1,628 M €. Revenues in 2004 increased in comparison with 2003 in every division. Despite a lower US Dollar exchange rate compared to Euro and less favourable hedges compared to 2003, the revenues increased mainly due to increased deliveries and a more favourable aircraft mix at Airbus as well as driven by milestones reached in the A 400 M programme in Military Transport Aircraft Division.

EADS applied IFRS 3 "business combinations" as of January 1, 2004: Goodwill is no longer regularly amortized, as previously requested under IAS 22, but instead is subject to annual impairment tests. In 2004, there was no Goodwill impairment. In 2003, **Goodwill amortization** reached 567 M €, which represented regular periodic amortization.

Research and development expenses of 2,126 M € (2003: 2,189 M €) decreased slightly. The application of accounting policy with respect to capitalization of development costs impacted the R&D costs recognized as expenses through a capitalization of 165 M € (2003: 4 M €).

Other income of 314 M € (2003: 196 M €) increased, as it includes the release of the provision for the VT 1 claim in the amount of 106 M €.

The **financial result** includes a net interest charge of -275 M € (2003: -203 M €), mainly comprising interest on financial liabilities and European Government refundable advances of 245 M €, partly compensated by the income generated by cash and cash equivalents, securities and financial assets such as loans and finance leases.

Income from investments of 84 M € (2003: 186 M €) was mainly influenced by the result of Dassault Aviation of 78 M € (2003: 225 M €). Since for the second half year of 2004 no financial information according to IFRS is available yet from Dassault Aviation, the net income of the second half year 2003 of Dassault Aviation has been used as the best estimate to report the current second half year's net income for 2004. The current year's equity investment income from Dassault Aviation also includes a negative catch-up of the prior year financial performance in accordance with IFRS, which amounts to -33 M € (in 2003 a positive catch-up of 77 M €).

Other financial result in 2004 of -55 M € (2003: 148 M €) includes, among others, interest expenses on a tax payment as well as the impact from the fair value measurement of embedded derivatives not used in hedging relationships.

7. Significant balance sheet items

Intangible assets of 10,008 M € (prior year: 9,694 M €) include 9,460 M € (prior year: 9,372 M €) of Goodwill. The increase comes mainly from the acquisition of RIG Holdings, Inc. with its subsidiaries. EADS applied IFRS 3 "business combinations" as of January 1, 2004: Goodwill is no longer regularly amortized, as previously requested under IAS 22, but instead is subject to annual impairment tests.

Eliminating foreign exchange-rate effects of -192 M €, **Property, plant and equipment** increased by 1,649 M € to 12,905 M € (prior year: 11,448 M €). Most of the increase is made by Airbus, due to strong capital expenditures related to the A380 project and Space division, mainly caused by the Skynet V program.

Financial Assets of 4,090 M € (prior year: 4,129 M €) increased in total – excluding foreign exchange-rate effect of -122 M € – by 83 M €, coming mainly from a change in equity-value of Dassault Aviation.

Inventories of 3,075 M € (prior year: 3,279 M €), net of customer advances, decreased by -204 M €. An increase in work in progress of 417 M € is overcompensated by a decrease in finished goods of 765 M €, reflecting higher aircraft delivery rates in total compared to production rates. Both developments are mainly driven by Airbus.

Other receivables and other assets increased by 825 M € to 11,105 M € (prior year: 10,280 M €). The increase is mainly caused by the development of the fair values of financial instruments (+984 M €), as a result of the declining US dollar exchange rate (US$ / € year-end spot rate of 1.36 at December 31, 2004 vs. 1.26 at December 31, 2003).

Securities, Cash and cash equivalents increased from 7,872 M € to 9,184 M €.

Stockholders' equity amounts to 16,973 M € (prior year: 16,149 M €), resulting mainly from a Net income of 1,030 M €, a cash distribution to shareholders of -320 M € and a revaluation of OCI in the amount of 152 M €.

Minority interests of 2,370 M € (prior year: 2,179 M €) mainly represent shares of BAe Systems in Airbus Group. The increase in BAe Systems' minority interest mainly is attributable to its share in the result of Airbus and the increase in fair values of financial instruments that qualify for hedge accounting according to IAS 39.

Provisions include 3,947 M € for retirement plans and similar obligations (prior year: 3,772 M €), 181 M € of provisions for financial instruments (prior year: 100 M €) and 4,445 M € of other provisions (prior year: 4,854 M €).

Financial liabilities of 5,126 M € (prior year: 4,767 M €) **–** excluding foreign exchange-rate effect of -142 M € **–** have increased by 501 M €, mainly due to the borrowing of a European Investment Bank (EIB) loan in the amount of 309 M € and external financing activities for the Skynet V program (269 M €). The increase is partly compensated by the repayment of the Apollo loan at Airbus (-194 M €).

Other liabilities increased by 1,922 M € to 13,240 M € (prior year: 11,318 M €). The increase is mainly impacted by higher advance payments received (1,803 M €) and a rise in liabilities from refundable government advances (268 M €, mostly from accrued interest), partly compensated by lower tax liabilities (-221 M €).

8. Significant cash flow items

Cash provided by operating activities increased by 304 M € to 5,013 M € (2003: 4,709 M €). This increase reflects improvements in operations and a higher level of customer advance payments received during the year.

Cash used for investing activities increased by 274 M € to -3,749 M € (2003: -3,475 M €). These outflows were mainly caused by investments in intangible and fixed assets of -3,017 M € (2003: -2,672 M €), thereof -2,153 M € in Airbus, mainly for A 380 and -318 M € in Skynet V within Space division. Additionally, the increase in equipment of leased assets by -656 M € (2003: -279 M €) affected the outflows significantly; it mostly relates to aircraft financing activities at Airbus and includes in 2004 a new operating lease financed by a debt of 369 M €, which is non-recourse to EADS. Besides that, cash used for investing activities was higher in 2004 than in 2003 due to lower sales of medium-term securities (2004: 10 M €, 2003: 336 M €).

Cash provided by financing activities amounts to 52 M € (2003: 852 M €) and mainly contains a new EIB loan (309 M €) and bank facilities for Skynet V (269 M €). This is partly compensated by the repayment of the Apollo loan at Airbus (-194 M €). It is further reduced by the cash distribution paid to shareholders of -320 M € as well as a dividend paid to minorities (mainly BAe Systems) of -64 M €**.**

9. Number of shares

The total number of shares outstanding is 799,550,294 and 800,957,248 as of December 31, 2004 and 2003, respectively. EADS' shares are exclusively ordinary shares with a par value of 1.00 €.

During the year 2004, EADS repurchased 3,787,523 ordinary shares (in 2003: 1,686,682 shares) in conjunction with the share-buyback program. The General shareholders' meeting on May 6, 2004 renewed the authorization given to the Board of Directors to repurchase shares of EADS. 5,686,682 of these treasury shares, purchased and held by EADS, were cancelled in July 2004.

10. Earnings per share

Basic earnings per share are calculated by dividing net income attributable to shareholders by the weighted average number of issued ordinary shares during the period, excluding ordinary shares purchased by the Group and held as treasury shares:

	January 1 to December 31, 2004	January 1 to December 31, 2003
Net income attributable to shareholders	1,030 M €	152 M €
Weighted average number of ordinary shares outstanding	801,035,035	800,957,248
Basic earnings per share	1.29 €	0.19 €

For the calculation of the **diluted earnings per share**, the weighted average number of ordinary shares is adjusted to assume conversion of all potential ordinary shares. The Group's only category of dilutive potential ordinary shares is stock options. Since in 2004 the exercise price of the stock options under the 4th and 5th stock option plans initiated by the Group is below the average share price of EADS shares, the inclusion of these potential ordinary shares has a dilutive effect on the weighted average number of shares. According to IAS 33, 3,047,837 stock options would be dilutive:

	January 1 to December 31, 2004	January 1 to December 31, 2003
Net income attributable to shareholders	1,030 M €	152 M €
Weighted average number of ordinary shares outstanding (diluted)	804,082,872	800,957,248
Diluted earnings per share	1.28 €	0.19 €

11. Related party transactions

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

12. Number of employees

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

13. Events after the balance sheet date

In February 2005, EADS has sold its Enterprise Telephony Business to Aastra. This business was part of the Defence & Security Systems division.

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