

First Half-year 2004 Report

Unaudited Condensed Interim Consolidated Financial Information of EADS N.V. for the first half-year of 2004

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Unaudited Condensed Consolidated Income Statements

	January 1 - June 30, 2004		January 1 - June 30, 2003		Deviation	
	M €	%	M €	%	M €	%
Revenues	14.567	100	13.060	100	1.507	12
Cost of sales	-11.651	-80	-10.413	-80	-1.238	12
Gross margin	2.916	20	2.647	20	269	10
Selling, administrative & other expenses	-1.069	-7	-1.512	-12	443	-29
<i>thereof amortization of goodwill and related impairment losses</i>	0	0	-281	-2	281	-100
Research and development expenses	-1.113	-8	-1.076	-8	-37	3
Other income	89	1	79	1	10	13
Income from operating activities	823	6	138	1	685	496
Financial result	-5	0	-54	-1	49	-91
Income taxes	-335	-3	-151	-1	-184	122
Profit (loss) from ordinary activities	483	3	-67	-1	550	-821
Minority interests	-96	0	1	0	-97	-9.700
Net income (loss)	387	3	-66	-1	453	-686
	€		€		€	
Earnings per share Basic and diluted	0,48		-0,08		0,56	

Unaudited Condensed Consolidated Income Statements for the second quarter 2004 and 2003

	April 1 - June 30, 2004		April 1 - June 30, 2003		Deviation	
	M €	%	M €	%	M €	%
Revenues	8.536	100	7.540	100	996	13
Cost of sales	-6.770	-79	-5.959	-79	-811	14
Gross margin	1.766	21	1.581	21	185	12
Selling, administrative & other expenses	-507	-6	-823	-11	316	-38
<i>thereof amortization of goodwill and related impairment losses</i>	0	0	-141	-2	141	-100
Research and development expenses	-578	-7	-548	-7	-30	5
Other income	24	0	24	0	0	0
Income from operating activities	705	8	234	3	471	201
Financial result	11	0	-40	-1	51	-128
Income taxes	-293	-3	-152	-2	-141	93
Profit from ordinary activities	423	5	42	0	381	907
Minority interests	-85	-1	-15	0	-70	467
Net income (loss)	338	4	27	0	311	1.152
	€		€		€	
Earnings per share Basic and diluted	0,42		0,03		0,39	

Unaudited Condensed Consolidated Balance Sheets

	June 30, 2004		December 31, 2003		Deviation	
	M €	%	M €	%	M €	%
Fixed assets						
Intangible assets	9.748	18	9.694	17	54	1
Property, Plant and Equipment	12.010	22	11.448	21	562	5
Financial Assets	4.300	8	4.129	8	171	4
Non-fixed assets	26.058	48	25.271	46	787	3
Inventories	3.482	7	3.279	6	203	6
Trade receivables	3.825	7	4.001	7	-176	-4
Other receivables and other assets	8.849	16	10.280	19	-1.431	-14
Securities	259	1	468	1	-209	-45
Cash and cash equivalents	7.643	14	7.404	14	239	3
	24.058	45	25.432	47	-1.374	-5
Deferred taxes	2.777	5	2.724	5	53	2
Prepaid expenses	1.028	2	951	2	77	8
Total assets	53.921	100	54.378	100	-457	-1
Shareholders' equity						
Capital Stock	813	2	813	1	0	0
Reserves	9.656	18	9.589	18	67	1
Accumulated other comprehensive income	5.041	9	5.934	10	-893	-15
Treasury shares	-187	0	-187	0	0	0
	15.323	29	16.149	29	-826	-5
Minority interests	2.028	4	2.179	4	-151	-7
Provisions	8.895	16	8.726	16	169	2
Liabilities						
Financial liabilities	5.019	9	4.767	9	252	5
Trade liabilities	5.384	10	5.117	9	267	5
Other liabilities	11.746	22	11.318	21	428	4
	22.149	41	21.202	39	947	4
Deferred taxes	3.153	6	3.664	7	-511	-14
Deferred income	2.373	4	2.458	5	-85	-3
Total liabilities and shareholders' equity	53.921	100	54.378	100	-457	-1

Unaudited Condensed Consolidated Cash Flow Statements

	January 1 - June 30,	January 1 - June 30,
	2004	2003
	M €	M €
Net income (loss)	387	-66
Income (loss) applicable to minority interest	96	-1
<i>Adjustments to reconcile net income(loss) to cash provided by operating activities</i>		
Depreciation and amortization of fixed assets	899	1.089
Valuation adjustments and CTA release	-248	54
Change in deferred taxes	178	-22
Results on disposals of fixed assets/businesses and results of associates (equity method)	-45	-76
Change in provisions	-70	-130
Change in other operating assets and liabilities	351	425
Cash provided by operating activities	1.548	1.273
- Purchases in fixed assets	-1.096	-823
- Proceeds from disposal of fixed assets and decrease in equipment of leased assets	33	51
- Payments for investments in financial assets and acquisitions of subsidiaries	-271	-271
- Proceeds from disposal of financial assets and subsidiaries	207	56
- Dividends paid by companies valued at equity	36	38
- Increase in equipment of leased assets	-202	-248
- Change in finance lease receivables	-73	-115
Change in securities	217	71
Change in cash from changes in consolidation	0	-158
Cash used for investing activities	-1.149	-1.399
Change in financial liabilities	156	857
Dividends paid to shareholders	-298	-240
Dividends paid to minorities	-28	-5
Others	0	1
Cash (used for) provided by financing activities	-170	613
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents	10	-20
Net increase in cash and cash equivalents	239	467
Cash and cash equivalents at beginning of period	7.404	5.401
Cash and cash equivalents at end of period	7.643	5.868

In the first half-year 2004, cash flow from changes in securities included in investing activities increased due to comprised sales of securities by 217 M € (first half-year 2003: sale of securities for 71 M €). These medium-term securities are included in Securities as stated in the balance sheet.

As of June 30, 2004, 540 M € (December 31, 2003: 613 M €) are included in Cash and cash equivalents, which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAe Systems and Finmeccanica. Additionally, Cash and cash equivalents include 429 M € (December 31, 2003: 273 M €) representing the amount Airbus has deposited at BAe Systems. These funds are available upon demand.

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

	M €
Equity as of January 1, 2004	16.149
Net income	387
Dividends	-320
OCI	-893
Equity as of June 30, 2004	15.323
Equity as of January 1, 2003	12.765
Net loss	-66
Dividends	-240
OCI	1.704
Equity as of June 30, 2003	14.163

Notes to the Unaudited Condensed Interim Consolidated Financial Statements (according to IFRS) as at June 30, 2004

1. The Company

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

2. Accounting policies

The Condensed Interim Consolidated Financial Statements for the period ended June 30, 2004 have been prepared in accordance with IAS 34 Interim Financial Reporting.

End of March 2004, the IASB completed Phase I of its ongoing Business Combinations Project and published new IFRS 3 Business Combinations as well as revised Standards IAS 36 Impairment of Assets and IAS 38 Intangible Assets. All three Standards are applicable to any business combination with an agreement date after March 31, 2004. However, EADS decided to anticipate adoption of IFRS 3 and revised IAS 36 and IAS 38 and to apply these standards as of January 1st, 2004. Consequently, from 2004 goodwill is no longer being amortised but tested for impairment at least annually. Same rule applies to intangible assets with an indefinite useful life. In the first half-year 2003, EADS recognised goodwill amortization amounting to 281 M €.

With the exception of application of IFRS 3 and revised IAS 36 and IAS 38, the accounting policies used in the preparation of this Interim Consolidated Financial Statements are consistent with those used in the annual Consolidated Financial Statements for the year ended December 31, 2003, which are disclosed as an integral part of the Group's annual report 2003.

The annual Consolidated Financial Statements were authorised for issue by EADS' Board of Directors on March 5, 2004. EADS is following International Financial Reporting Standards (IFRS) principles.

Costs incurring unevenly during the financial year are anticipated or deferred in the interim period only if it is appropriate to anticipate or defer that type of cost at the end of the financial year.

Income tax expense is recognized based on the best estimate of the weighted-average annual income tax rate expected for the full year applied on pre-tax income. The estimated annual average income tax rate for 2004 is about 41 % (projected in the first half-year 2003: 41 %).

These Condensed Interim Consolidated Financial Statements should be read in conjunction with the 2003 annual Consolidated Financial Statements.

3. Changes in the consolidation perimeter and major events of EADS

There were no material acquisitions or disposals of subsidiaries, business combinations, long-term investments and discontinued operations during the first half of 2004.

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 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."

Unaudited Condensed Consolidated Financial Information for the six months ending June 30, 2004

in M €	Airbus	Military Transport	Aero-nautics	Defence & Security Systems	Space	HQ/ Conso.	Consolidated
Six months ended June 30, 2004							
External revenues	10.024	234	1.631	2.119	1.090	-531	14.567
Research and development expenses	-936	-13	-34	-89	-24	-17	-1.113
EBIT pre goodwill amort. and exceptionals (see definition below)	982	-10	56	-82	-11	50	985
Six months ended June 30, 2003							
External revenues	8.773	268	1.613	1.902	1.008	-504	13.060
Research and development expenses	-901	-11	-34	-103	-27		-1.076
EBIT pre goodwill amort. and exceptionals (see definition below)	621	-8	59	-28	-131	79	592

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 income or expenses of a non-recurring nature, such 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.

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- June 30, 2004	January 1- June 30, 2003
Income from operating activities	823	138
Income from investments	56	55
	879	193
Goodwill and exceptionals:		
Goodwill amortization and related impairment charges	0	281
Fair value adjustment	106	118
EBIT pre goodwill amortization and exceptionals	985	592

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 1st, 2004.

As a consequence, operations of former Airbus GIE are from January 1st, 2004, considered as "foreign currency operations" and accounted for in accordance with accounting principles

consistently adopted by EADS and disclosed in the notes to consolidated financial statements. 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 1st, 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 31st, 2003, booked for balance sheet items that relate to future transactions as from January 1st, 2004, is gradually released according to realization of such operations, namely aircraft deliveries.

For the period ended June 30th, 2004, EBIT has thus been increased by 59 M €, representing the net impact from applying to revenues and cost of sales the historical exchange rates instead of the exchange rate prevailing on December 31st, 2003.

6. Significant profit and loss statement items

EADS Group **revenues** in the first half-year 2004 reached 14.567 M €, which - compared to the first half-year 2003 – is an increase of 1.507 M €. All divisions except Military Transport recorded increasing revenues, mostly reflecting on the one hand higher aircraft deliveries of Airbus with a more favourable model mix and on the other hand stronger revenues from defence customers, namely in the Space and Defence & Security Systems divisions.

Research and development expenses of 1.113 M € (first half-year 2003: 1.076 M €) remained about stable mainly because of the Airbus A 380 project continuation. The application of accounting policy with respect to capitalization of development costs did not significantly impact the R&D costs recognized as expenses as compared to the same period in 2003.

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 the first half-year 2004, there was no Goodwill impairment. In the first half-year 2003, **Goodwill amortization** reached 281 M €, which represented regular periodic amortization.

The **financial result** includes net interest charge of -102 M € (first half-year 2003: -101 M €), mainly comprising interest on financial liabilities and European Government refundable advances, partly compensated by the return on cash and cash equivalents, securities and financial assets such as loans and finance leases.

Income from investments of 56 M € (first half-year 2003: 55 M €) was mainly influenced by the result of Dassault Aviation of 45 M € (first half-year 2003: 55 M €). The decrease is mainly due to negative IFRS-catch up restatements for the second half-year 2003 in 2004.

7. Significant balance sheet items

Intangible assets of 9.748 M € (prior year 9.694 M €) include 9.376 M € (prior year: 9.372 M €) of Goodwill. 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 +104 M €, **Property, plant and equipment** increased by 458 M € to 12.010 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 Paradigm / Skynet 5 program.

Financial Assets of 4.300 M € (prior year: 4.129 M €) increased in total – excluding foreign exchange-rate effect of 54 M € – by 117 M €, coming mainly from aircraft financing activities of Airbus and a change in equity-value of Dassault Aviation.

Inventories of 3.482 M € (prior year: 3.279 M €), net of customer advances, increased without foreign exchange-rate effect of 55 M € by 148 M €. The increase in unfinished goods of 1.224 M € (mainly Airbus, Defence & Security and Aeronautics division) is partly compensated by finished goods of -576 M €, coming mainly from Airbus, and higher advance payments received mainly in Defence (in total - 420 M €).

The decrease in **trade receivables** by -176 M € to 3.825 M € (prior year: 4.001 M €) is mainly due to high customer payments in Airbus, Defence & Security and Aeronautics Divisions.

Other receivables and other assets decreased by -1.431 M € to 8.849 M € (prior year: 10.280 M €). The decrease is mainly caused by the variation of the fair values of financial instruments (-1.350 M €), mainly as a result of the development of the US dollar exchange rate (USD / € spot rate of 1.22 at June 30, 2004 vs. 1.26 at December 31, 2003) and matured hedges.

Cash and cash equivalents increased from 7.404 M € to 7.643 M €. This is thanks to strong cash flows provided by operations which more than offset cash used for investing activities and cash used for dividend payments to shareholders and minority interests of -326 M €.

Stockholders' equity amounts to 15.323 M € (prior year: 16.149 M €), resulting from a Net income of 387 M €, a dividend to shareholders of -320 M € (including withholding taxes) and a decrease of -893 M € of OCI.

Minority interests of 2.028 M € (prior year: 2.179 M €) mainly represent shares of BAe Systems in Airbus Group. The decrease in BAe Systems' minority interest is mainly attributable to change in fair values of financial instruments that qualify for hedge accounting according to IAS 39 as well as the dividend paid by Airbus.

Provisions include 3.869 M € for retirement plans and similar obligations (prior year: 3.772 M €), 289 M € of provisions for financial instruments (prior year: 100 M €) and 4.737 M € of other provisions (prior year: 4.854 M €).

Financial liabilities of 5.019 M € (prior year: 4.767 M €), excluding foreign exchange-rate effects of 98 M €, increased by Skynet 5 activities.

Without considering foreign exchange-rate effects of 91 M €, **other liabilities** increased by 337 M € to 11.746 M € (prior year: 11.318 M €). Other liabilities mainly include 5.168 M € (prior year: 4.851 M €) of European Government refundable advances and 4.285 M € (prior year: 3.807 M €) of customer advance payments.

The decrease in **deferred tax liabilities** of -511 M € to 3.153 M € (prior year: 3.664 M €) is significantly influenced by the decrease in the fair value of financial instruments accounted for as other assets.

8. Significant cash flow items

Cash provided by operating activities increased by 275 M € to 1.548 M € (first half-year 2004: 1.273 M €). This increase reflects the significant improvement in profits. Moreover, last year's cash flow included negative effects from old "macro-hedges" that bore unfavourable rates.

Cash used for investing activities decreased by 250 M € to -1.149 M € (first half-year 2003: -1.399 M €). This outflow is mainly caused by investments in fixed assets of -1.096 M € (first half-year 2003: -823 M €), thereof -215 M € in Skynet 5 within Space division and investments of -676

M € in Airbus division, mainly for A 380. These outflows were partly offset by the sale of securities in the first half-year 2004 by 217 M € (first half-year 2003: 71 M €).

Cash used for financing activities amounts to -170 M € (first half-year 2003: 613 M €) and was mainly affected by dividend payments to shareholder of -298 M € (excluding withholding taxes) and to minorities (-28 M €).

9. Contingencies

Since the last balance sheet date (December 31, 2003), there were no significant changes in contingent liabilities.

10. Number of shares

The total number of shares outstanding is 800.957.248 and 800.957.248 as of June 30, 2004 and 2003, respectively. EADS' shares are exclusively ordinary shares with a par value of 1,00 €. No shares were repurchased neither in the first half-year of 2004 nor in the first half-year of 2003.

11. Earnings per share

Basic earnings per share are calculated by dividing net income (loss) 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 June 30, 2004	January 1 to June 30, 2003
Net income (loss) attributable to shareholders	387 M €	-66 M €
Weighted average number of ordinary shares outstanding	800.957.248	800.957.248
Basic earnings per share	0,48 €	-0,08 €

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 the exercise price of the stock options under the 4th and 5th stock option plans initiated by the Group is exceeding the 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, 2.208.020 stock options are dilutive:

	January 1 to June 30, 2004	January 1 to June 30, 2003
Net income (loss) attributable to shareholders	387 M €	-66 M €
Weighted average number of ordinary shares outstanding (diluted)	803.165.268	800.957.248
Diluted earnings per share	0,48 €	-0,08 €

12. 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, such transactions are not considered material to the Group either individually or in the aggregate. The transactions with the French State include mainly sales from the Aeronautics, Defence & Security Systems and Space divisions.

13. Number of employees

The number of employees at June 30, 2004 is 109.413 as compared to 109.135 at December 31, 2003.