

# **First Quarter 2005 Report**

## **Unaudited Condensed IFRS Consolidated Financial Information of EADS N.V. for the first quarter of 2005**

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**Unaudited Condensed IFRS Consolidated Income Statements**

	January 1 - March 31, 2005		January 1 - March 31, 2004		Deviation	
	M €	%	M €	%	M €	%
<b>Revenues</b>	7,005	100	6,031	100	974	16
Cost of sales	-5,529	-79	-4,881	-81	-648	13
<b>Gross margin</b>	<b>1,476</b>	<b>21</b>	<b>1,150</b>	<b>19</b>	<b>326</b>	<b>28</b>
Selling, administrative & other expenses	-535	-8	-562	-9	27	-5
Research and development expenses	-422	-6	-535	-9	113	-21
Other income	38	1	65	1	-27	-42
Share of profit from associates and other income from investments	67	1	28	0	39	139
<b>Profit before finance costs and income taxes</b>	<b>624</b>	<b>9</b>	<b>146</b>	<b>2</b>	<b>478</b>	<b>327</b>
Finance costs	-2	0	-44	-1	42	-95
Income taxes	-212	-3	-42	-1	-170	405
<b>Profit for the period</b>	<b>410</b>	<b>6</b>	<b>60</b>	<b>1</b>	<b>350</b>	<b>583</b>
<b>Attributable to:</b>						
<b>Equity holders of the parent (Net income)</b>	<b>328</b>	<b>5</b>	<b>49</b>	<b>1</b>	<b>279</b>	<b>569</b>
Minority interest	82	1	11	0	71	645
<b>Earnings per share</b>	€		€		€	
Basic and diluted	0.41		0.06		0.35	

**Unaudited Condensed IFRS Consolidated Balance Sheets**

	March 31, 2005		December 31, 2004		Deviation	
	M €	%	M €	%	M €	%
<b>Non-current assets</b>						
Intangible assets	10,061	17	10,008	17	53	1
Property, Plant and Equipment	13,294	23	12,905	22	389	3
Investment in associates	1,820	3	1,738	3	82	5
Other investments	2,384	4	2,110	4	274	13
Deferred tax assets	2,702	5	2,543	4	159	6
Non-current securities	567	1	466	1	101	22
Other non-current assets	5,828	10	6,973	12	-1,145	-16
	<b>36,656</b>	<b>63</b>	<b>36,743</b>	<b>63</b>	<b>-87</b>	<b>0</b>
<b>Current assets</b>						
Inventories, net of advance payments received	3,437	6	3,075	5	362	12
Trade receivables	3,960	7	4,406	8	-446	-10
Cash and cash equivalents	9,189	16	8,718	15	471	5
Other current assets	4,923	8	5,325	9	-402	-8
	<b>21,509</b>	<b>37</b>	<b>21,524</b>	<b>37</b>	<b>-15</b>	<b>0</b>
<b>Total assets</b>	<b>58,165</b>	<b>100</b>	<b>58,267</b>	<b>100</b>	<b>-102</b>	<b>0</b>
<b>Equity</b>						
<b>Equity attributable to equity holders of the parent</b>						
Capital Stock	810	1	810	1	0	0
Reserves	10,594	18	10,254	18	340	3
Accumulated other comprehensive income	5,256	9	6,086	10	-830	-14
Treasury shares	-380	-1	-177	0	-203	115
	<b>16,280</b>	<b>27</b>	<b>16,973</b>	<b>29</b>	<b>-693</b>	<b>-4</b>
<b>Minority interests</b>	<b>2,249</b>	<b>4</b>	<b>2,370</b>	<b>4</b>	<b>-121</b>	<b>-5</b>
	<b>18,529</b>	<b>31</b>	<b>19,343</b>	<b>33</b>	<b>-814</b>	<b>-4</b>
<b>Non-current liabilities</b>						
Non-current provisions	6,125	11	6,045	10	80	1
Long-term financial liabilities	4,540	8	4,406	8	134	3
Deferred tax liabilities	3,637	6	4,134	7	-497	-12
Other non-current liabilities	9,892	17	9,635	17	257	3
	<b>24,194</b>	<b>42</b>	<b>24,220</b>	<b>42</b>	<b>-26</b>	<b>0</b>
<b>Current liabilities</b>						
Current provisions	2,350	4	2,350	4	0	0
Short-term financial liabilities	870	1	720	1	150	21
Trade liabilities	5,788	10	5,860	10	-72	-1
Current tax liabilities	398	1	178	0	220	124
Other current liabilities	6,036	11	5,596	10	440	8
	<b>15,442</b>	<b>27</b>	<b>14,704</b>	<b>25</b>	<b>738</b>	<b>5</b>
<b>Total equity and liabilities</b>	<b>58,165</b>	<b>100</b>	<b>58,267</b>	<b>100</b>	<b>-102</b>	<b>0</b>

**Unaudited Condensed IFRS Consolidated Cash Flow Statements**

	January 1 - March 31, 2005	January 1 - March 31, 2004
	M €	M €
Profit for the period attributable to equity holders of the parent	328	49
Profit attributable to minority interests	82	11
<i>Adjustments to reconcile profit for the period to cash provided by operating activities</i>		
Depreciation and amortization	360	380
Valuation adjustments and CTA	-34	21
Deferred tax income	-41	-11
Results on disposals of non-current assets and results of companies accounted for by the equity method	-129	-23
Change in current and non-current provisions	289	78
Change in other operating assets and liabilities	459	462
<b>Cash provided by operating activities</b>	<b>1,314</b>	<b>967</b>
Purchases of intangible assets and PPE	-557	-501
Proceeds from disposals of intangible assets and PPE	10	21
Acquisitions of subsidiaries (net of cash)	0	-1
Proceeds from disposals of subsidiaries (net of cash)	54	0
Payments for investments in associates and other investments and other long-term financial assets	-128	-17
Proceeds from disposals of associates and other investments and long-term financial assets	135	30
Increase in equipment of leased assets	-29	-27
Proceeds from disposals of leased assets	19	0
Increase in finance lease receivables	-196	0
Decrease in finance lease receivables	19	14
Change in securities	-101	213
Change in cash from changes in consolidation	11	0
<b>Cash used for investing activities</b>	<b>-763</b>	<b>-268</b>
Change in long-term and short-term financial liabilities	117	83
Capital increase	2	0
Own shares purchased	-203	0
Others	0	1
<b>Cash (used for) provided by financing activities</b>	<b>-84</b>	<b>84</b>
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents	4	-2
<b>Net increase in cash and cash equivalents</b>	<b>471</b>	<b>781</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>8,718</b>	<b>7,404</b>
<b>Cash and cash equivalents at end of period</b>	<b>9,189</b>	<b>8,185</b>

In the first quarter 2005, cash flow from changes in securities included in investing activities shows comprised purchases of securities by -101 M € (first quarter 2004: sales of securities of 213 M €).

As of March 31, 2005, EADS' cash position (stated as cash and cash equivalents in the unaudited consolidated cash flow statements) includes 798 M € (687 M € as of December 31, 2004) representing the amount Airbus has deposited at BAe Systems. Additionally included are 485 M € (602 M € as of December 31, 2004), which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAe Systems and Finmeccanica. These funds are available for EADS upon demand.

**Unaudited Condensed IFRS Consolidated Statements of Changes in Equity**

in M €	Attributable to equity holders of the parent	Minority interest	Total equity
<b>Balance at January 1, 2005</b>	<b>16,973</b>	<b>2,370</b>	<b>19,343</b>
Profit for the period	328	82	410
OCI	-830	-203	-1,033
Capital Increase	2	0	2
Purchases of treasury shares	-203	0	-203
Others	10	0	10
<b>Balance at March 31, 2005</b>	<b>16,280</b>	<b>2,249</b>	<b>18,529</b>
<b>Balance at January 1, 2004</b>	<b>16,149</b>	<b>2,179</b>	<b>18,328</b>
Profit for the period	49	11	60
OCI	-560	-139	-699
<b>Balance at March 31, 2004</b>	<b>15,638</b>	<b>2,051</b>	<b>17,689</b>

**Explanations to the Unaudited Condensed IFRS Consolidated Financial Statements as at March 31, 2005****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. Change in accounting policies**

These Condensed Interim Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. EADS' Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted by the International Accounting Standards Board ("IASB"). They comprise (i) IFRS, (ii) International Accounting Standards ("IAS") and (iii) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or former Standing Interpretations Committee ("SIC").

As of January 1, 2005, EADS adopted the following revisions and amendments to existing Standards and new Standards and Interpretations as required by the following announcements released by the IASB in December 2003 and in 2004:

EADS applies thirteen revised International Accounting Standards (IASs) in conjunction with the Improvements Project (IASs 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 40), new IFRS 2 "Share Based Payments", IFRS 4 "Insurance Contracts" and IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", new IFRIC 1 "Changes in Existing Decommissioning, Restoration and

Similar Liabilities”, IFRIC 2 “Members’ Shares in Co-operative Entities and Similar Instruments” and IFRIC 4 “Determining whether an Arrangement contains a Lease” as well as amendments to IAS 32 (March 2004), to IAS 39 (March 2004) and to SIC 12 “Consolidation – Special Purpose Entities”.

Furthermore, end of March 2004, the IASB completed Phase I of its ongoing Business Combinations Project and released 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.

Besides consequential changes as mentioned above the accounting policies used in the preparation of the interim consolidated financial statements are consistent with those used in the annual Consolidated Financial Statements for the year ended December 31, 2004, which are disclosed as an integral part of the Group’s Annual Report 2004. The annual Consolidated Financial Statements were authorised for issue by EADS’ Board of Directors on March 8, 2005.

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 2005 is about 34 % (projected in the first quarter 2004: 40 %).

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

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

On February 28, 2005, EADS sold its Enterprise Telephony Business, which comprises its civil telecommunication activities, to Aastra Technologies Limited, Concord / Canada. In the first quarter of 2004, Enterprise Telephony Business has generated revenues of 20 M € in Defence & Security division.

Apart from this transaction, other acquisitions or disposals by the Group are 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-

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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.	Consolidated
<b>Three months ended March 31, 2005</b>							
Revenues	4,989	108	743	925	516	-276	<b>7,005</b>
Research and development expenses	345	5	18	37	9	8	<b>422</b>
EBIT pre goodwill imp. and exceptionals (see definition below)	628	-6	11	-35	-6	65	<b>657</b>
<b>Three months ended March 31, 2004</b>							
Revenues	4,126	101	645	932	457	-230	<b>6,031</b>
Research and development expenses	463	7	18	40	8	-1	<b>535</b>
EBIT pre goodwill imp. and exceptionals (see definition below)	224	-8	10	-51	-11	34	<b>198</b>

## 5. EBIT pre goodwill impairment and exceptionals

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

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

in M €	January 1- March 31, 2005	January 1- March 31, 2004
<b>Profit before finance costs and income taxes</b>	<b>624</b>	<b>146</b>
Fair value adjustment	33	52
<b>EBIT pre goodwill impairment and exceptionals</b>	<b>657</b>	<b>198</b>

## 6. Significant profit and loss statement items

EADS Group **revenues** in the first quarter 2005 reach 7,005 M €, which - compared with the first quarter 2004 – is an increase of 974 M €. All divisions except Defence & Security Systems record increasing revenues, mostly reflecting on one hand higher aircraft deliveries of Airbus and on the other hand stronger helicopter sales at the Aeronautics division.

**Research and development expenses** of 422 M € (first quarter 2004: 535 M €) show a decrease which is mainly due to the A380-program. Capitalization of development costs for A 380 in first quarter 2005 amounts to 52 M € (first quarter 2004: 0 M €).

**Share of profit from associates and other income from investments** of 67 M € (first quarter 2004: 28 M €) is mainly influenced by the result of Dassault Aviation of 60 M € (first quarter 2004: 23 M €). The increase is mainly due to positive 2004 IFRS-catch up adjustments accounted for in 2005.

The **finance costs** include a net interest charge of -57 M € (first quarter 2004: -59 M €) accrued mainly for refundable government advances, partly offset by positive effects from foreign exchange rate revaluations.

## 7. Significant balance sheet items

**Intangible assets** of 10,061 M € (prior year: 10,008 M €) include 9,463 M € (prior year: 9,460 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. As of March 31, 2005 no impairment has to be accounted for.

Eliminating foreign exchange-rate effects of +163 M €, **Property, plant and equipment** increased by 226 M € to 13,294 M € (prior year: 12,905 M €). Most of the increase is attributable to Airbus, due to strong capital expenditures related to the A380 program and the Space division, mainly caused by the Paradigm / Skynet 5 program. Property, plant and equipment comprises “Investment property” amounting to 157 M € (prior year: 159 M €).

**Investment in associates** of 1,820 M € (prior year: 1,738 M €) mainly increases due to a change in the investment of Dassault Aviation, using the equity method.

**Other investments** of 2,384 M € (prior year: 2,110 M €) are attributable to Airbus in the amount of 1,751 M € (prior year: 1,553 M €), mainly concerning the non-current portion of aircraft financing activities.

**Deferred tax assets** of 2,702 M € (prior year: 2,543 M €) are presented as non-current assets as required by IAS 1.

**Other non-current assets** comprise “Non-current other assets” and “Non-current prepaid expenses”. The decrease of -1,145 M € to 5,828 M € (prior year: 6,973 M €) is mainly caused by the variation of the non-current portion of fair values of financial instruments (-1,120 M €), as a result of the rising US dollar exchange rate (USD / € spot rate of 1.30 at March 31, 2005 vs. 1.36 at December 31, 2004).

**Inventories, net of advance payments received**, of 3,437 M € (prior year: 3,075 M €), net of customer advances, increase by 362 M € due to a higher level of unfinished goods and services, mainly by Airbus.

The decrease in **trade receivables** is mainly due to higher advance payments received for construction contracts at Military Transport Aircraft Division and to higher customer payments in Defence and Security and in Airbus Divisions.

**Cash and cash equivalents** increase from 8,718 M € to 9,189 M €.



**Other current assets** include “Current portion of financial assets”, “Current other assets”, “Current income tax assets” and “Current prepaid expenses”. The decrease of -402 M € to 4,923 M € (prior year: 5,325 M €) is mainly caused by the variation of the current portion of fair values of financial instruments (-487 M €), as a result of the rising US dollar exchange rate (USD / € spot rate of 1.30 at March 31, 2005 vs. 1.36 at December 31, 2004).

**Equity attributable to equity holders of the parent** amounts to 16,280 M € (prior year: 16,973 M €), mainly resulting from a profit for the period (Net income) of 328 M €, a decrease of -830 M € of OCI, primarily resulting from consumption as well as from changes in fair values of derivative financial instruments and the purchases of treasury shares of -203 M €.

**Minority interests** of 2,249 M € (prior year: 2,370 M €) mainly represent shares of BAe Systems in Airbus Group. The decrease in BAe Systems’ minority interest is mainly attributable to the decrease in fair values of financial instruments that qualify for hedge accounting according to IAS 39 in Airbus, partly compensated by a positive result allocated to minority interests.

**Non-current provisions** include 3,801 M € for the non-current portion of the provision for retirement plans and similar obligations (prior year: 3,749 M €), 92 M € of non-current provision for financial instruments (prior year: 137 M €) and 2,232 M € of other non-current provisions (prior year: 2,159 M €).

**Long-term financial liabilities** of 4,540 M € (prior year: 4,406 M €), excluding foreign exchange-rate effects of +84 M €, increased by 50 M € due to the Skynet V program external financing of 44 M €.

The decrease in **deferred tax liabilities** of -497 M € to 3,637 M € (prior year: 4,134 M €) is significantly influenced by the decrease in the fair value of financial instruments accounted for as “Other non-current assets” and “Other current assets”.

**Other non-current liabilities** comprise “Non-current other liabilities” and “Non-current deferred income”. Without considering foreign exchange-rate effects of +51 M €, other non-current liabilities increase by +206 M € to 9,892 M € (prior year: 9,635 M €). Other non-current liabilities mainly include the non-current portion of European Government refundable advances amounting to 4,998 M € (prior year: 4,781 M €) and non-current customer advance payments received of 3,439 M € (prior year: 3,353 M €).

**Current provisions** include 198 M € for the current portion of the provision for retirement plans and similar obligations (prior year: 198 M €), 92 M € of current provisions for financial instruments (prior year: 44 M €) and 2,060 M € of other current provisions (prior year: 2,108 M €).

**Short-term financial liabilities** of 870 M € (prior year: 720 M €), excluding foreign exchange-rate effects of +20 M €, increased by 130 M €.

The increase of **Current tax liabilities** of 220 M € to 398 M € (prior year: 178 M €), mainly concerns Airbus SAS (+215 M €).

**Other current liabilities** include “Current other liabilities” and “Current deferred income”. They increase by +440 M € to 6,036 M € (prior year: 5,596 M €). Other current liabilities mainly include current customer advance payments of 2,379 M € (prior year: 2,257 M €) and the current portion of European Government refundable advances amounting to 463 M € (prior year: 338 M €).

## 8. Significant cash flow items

**Cash provided by operating activities** increases by 347 M € to 1,314 M € (first quarter 2004: 967 M €). This increase mainly reflects improvements in EADS operations. The positive working

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capital (change in other operating assets and liabilities) of 459 M € (first quarter 2004: 462 M €) primarily results from ongoing customer payments.

**Cash used for investing activities** increases by -495 M € to -763 M € (first quarter 2004: -268 M €). The outflow is mainly caused by Airbus activities (A380) and the Skynet V program.

**Cash (used for) provided by financing activities** amounts to -84 M € (first quarter 2004: 84 M €) mainly contains the purchases of treasury shares, partly offset by draw-downs on financial liabilities.

## 9. Contingencies

Since the last balance sheet date (December 31, 2004), there were no significant changes in contingent liabilities.

## 10. Number of shares

The total number of shares outstanding is 790,727,881 and 800,957,248 as of March 31, 2005 and 2004, respectively. EADS' shares are exclusively ordinary shares with a par value of 1.00 €.

During the first quarter 2005, EADS repurchased 8,950,275 of its ordinary shares (in the first quarter 2004: no treasury shares purchased) in conjunction with the share-buyback program. The General shareholders' meeting on May 6, 2004 had renewed the authorization given to the Board of Directors to repurchase shares of EADS.

127,862 new shares (first quarter 2004: 0 shares) were issued as a result of the exercise of stock options in compliance with the implemented stock option plans

## 11. Earnings per share

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

	January 1 to March 31, 2005	January 1 to March 31, 2004
Profit for the period attrib. to equity holders of the parent	328 M €	49 M €
Weighted average number of ordinary shares outstanding	795,573,328	800,957,248
Basic earnings per share	0.41 €	0.06 €

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 average price of EADS shares during the first quarter of 2005 exceeded the exercise price of the stock options under the 1<sup>st</sup>, 2<sup>nd</sup>, 4<sup>th</sup> and 5<sup>th</sup> stock option plans initiated by the Group, the inclusion of the related potential ordinary shares increases the weighted average number of shares. 4,627,286 stock options are considered dilutive according to IAS 33:

	January 1 to March 31, 2005	January 1 to March 31, 2004
Profit for the period attrib. to equity holders of the parent	328 M €	49 M €
Weighted average number of ordinary shares outstanding (diluted)	800,200,614	802,320,274
Diluted earnings per share	0.41 €	0.06 €

## 12. Related party transactions

The Group has entered into various transactions with related companies in 2005 and 2004 that have all been carried out in the normal course of business. As is the Group's policy, all related party transactions have to be carried out at arm's length. Transactions with related parties include the French State, DaimlerChrysler, Lagardère, and SEPI (Spanish State). Except for the transactions with the French State 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.

## 13. Number of employees

The number of employees at March 31, 2005 is 110,897 as compared to 110,662 at December 31, 2004.