NUMBER 12 October 2004

aero-notes

Letter to our shareholders

Dear shareholders,

Looking at the first half of the year and subsequent events, 2004 is shaping up pretty well and - not surprisingly - conforming with our expectations.
The summer period was eventful: At the Farnborough Air Show, Airbus announced its plan to raise production very significantly in response to the growth of traffic and load factors, particularly in Asia and Europe. The new Jean-Luc Lagardère assembly hall, inaugurated in May, is now bustling with activity, and the first A380 flight is only months away! Thai Airways and Etihad have adopted this new standard setter, and as you will see in this issue, airports around the world are getting ready to welcome it. The additional traffic (and revenues) that this giant will afford its users is as attractive as ever.
In fact, I believe EADS is moving from its successful integration phase into a period of global expansion backed by accelerating growth and a robust order book worth € 180 billion. Consider the turn around of our Space business profitability, measurable in the second quarter of 2004: inventive new services, like Paradigm and hopefully Galileo, are building on this momentous success by providing long term growth prospects. Or think of homeland security, an emerging market where we have scored well with a $ 75 million contract to supply 55 EC120 helicopters to the U.S. Customs and Border Protection Agency, and with a € 650 million contract to provide an integrated system for Romania's border surveillance and security.
We are excited about these prospects, and our management is hard at work to transform these top-line opportunities into long term value to be reflected in our stock price. We will certainly face obstacles, from competitors and from budgets. But our global industrial initiative, by forcing us to think "out of the box", will support the long term development of EADS outside its traditional dominion and extend deep roots of local partnership in all the markets where it intends to grow.

Hans Peter Ring
CFO

Summary

EADS

Half Year Results (H1) 2004

Results grow strongly in first half year

EADS (stock exchange symbol: EAD), the world's second largest aerospace and defence group, has achieved strong results growth in the first half year of 2004. The company reached an EBIT* (pre-goodwill and exceptionals) of € 985 million in the first six months, 66 % higher than the figure for the same period of 2003 (€ 592 million). The EBIT* margin has increased from 4.5 % to 6.8 %. The EBIT* improvement was particularly driven by Airbus, which delivered twelve aircraft more than in the same period last year with a higher proportion of A330/A340 family aircraft, and by the Space Division, which had already achieved close to break-even by mid-year. As usual, the Defence businesses are expected to contribute stronger results in the second half of the year. The Defence and Security Systems Division was held back, as previously announced, by a restructuring charge in the second quarter. Thanks to the market improvements particularly in civil aviation, EADS has increased its 2004 EBIT* target to about € 2.1 billion, up from the previous target of € 1.93 billion.

Strong Net Cash position maintained

Free Cash Flow before customer financing amounted to € 259 million in the first half year (H1 2003: € 305 million), reflecting the strong profits and a spill-over of aircraft deliveries into the year 2004. This performance was achieved after higher investment and inventory build-up by Airbus for the A380 and capital expenditures in Space related to Paradigm.

EADS maintained its strong Net Cash position at € 2.9 billion (year-end 2003: € 3.1 billion). EADS paid about € 300 million of dividends to its shareholders in the second quarter of 2004.

Net income of € 387 million - Revenues up 12 %

EADS recorded first half year Net Income of € 387 million (same period 2003 pre-goodwill: € 177 million), or € 0.48 per share (H1 2003: € 0.22). EADS revenues increased by 12 % in the first six months to reach € 14.6 billion (first half year 2003: € 13.1 billion). Revenues increased in all Divisions except Military Transport Aircraft, where no A400M revenue milestone was recognised before July. The EADS order intake amounted to € 13.5 billion from January to June 2004. In the same period 2003, EADS had recorded large contracts such as the € 20 billion A400M procurement and 21 orders for the A380. Therefore, order intake was down on a year-on-year comparison, but still remained close to the level of revenues. The order book of EADS increased slightly compared to year-end 2003, reaching € 179.9 billion at the end of June 2004. Out of this total, € 44.7 billion are from the Defence businesses. At the end of June 2004, EADS had 109,413 employees (year-end 2003: 109,135).

EADS – Half Year Results (H1) 2004 (Amounts in euros)

EADS Group	H1 2004	H1 2003	Change
Revenues, in millions	**14,567**	13,060	+ 12 %
of which defence, in billions	**2.6**	2.4	
EBITDA[1], in millions	**1,780**	1,292	+ 38 %
EBIT*, in millions	**985**	592	+ 66 %
Research & Development Costs, in millions	**1,113**	1 ,076	+ 3 %
Net Income[2], in millions	**387**	177	+ 119 %
Earnings Per Share (EPS)	**0.48**	0.22	+ 0,26 €
Free Cash Flow before Customer Financing, in millions	**259**	305	- 15 %
Order Intake, in millions	**13,458**	43,190	- 69 %
	30 June 2004	**31 Dec 2003**	**Change**
Order Book, in millions	**179,944**	179,280	+/- 0 %
of which defence, in billions	**44.7**	45.7	
Net Cash position, in millions	**2,883**	3,105	- 7 %
Employees	**109,413**	109,135	+/- 0 %

Outlook

EADS increases its 2004 EBIT* target to about € 2.1 billion from € 1.93 billion. At the same time, EADS raises its 2004 revenues target to € 31 billion (previously at € 29 to 30 billion), based on an average exchange market rate of € 1 = $ 1.20.

These improvements should be achieved thanks to stronger contributions from the non-Airbus Divisions in the second half of the year. At the same time, Airbus deliveries will not be at the same level of the first half year, and aircraft mix is expected to be less favourable until year-end, with a lower delivery proportion of A330/A340 family aircraft.

1) Earnings before interest, taxes, depreciation, amortization and exceptionals

2) Net Income and EPS are now reported according to IFRS 3; goodwill is no longer amortized. The H1 2003 Net Income had been reported previously at €-66 million, after goodwill amortization, and EPS at € -0.08

Results by division 2004

Space Division already close to break-even

The **Airbus** Division achieved strong profit growth with half-year EBIT* of € 982 million (H1 2003: € 621 million), thanks to higher deliveries (161 versus 149) and a particularly favourable aircraft mix. The EBIT* margin improved from 7.1 % to 9.8 %, and the EBIT* margin pre R&D increased from 17.3 % to 19.1 %. Revenues grew by 14 % to € 10,024 million. The gross customer financing exposure has stabilized at $ 4.9 billion, due to a stronger than anticipated appetite by capital markets to finance aircraft assets.
Following the recent improvements in market demand, Airbus now expects to deliver more than 305 aircraft in 2004, which was the 2003 level, and to increase significantly deliveries in the coming years. In the first half year 2004, Airbus has already delivered 161 aircraft.

Airbus recorded 104 gross aircraft orders in the first half year, reaching a 58 % market share, and expects substantially higher orders in the second half of the year. The Airbus order book amounted to € 139.7 billion at the end of June 2004, representing a total of 1,393 aircraft.

The **Military Transport Aircraft** Division recorded an EBIT* of € -10 million in the first six months (H1 2003: € -8 million). Revenues stood at € 234 million (H1 2003: € 268 million). As planned, there was no milestone for revenue recognition of the A400M programme before early July 2004. The order book amounted to € 19.9 billion at the end of the first half year.

EBIT* of the **Aeronautics** Division was roughly stable at € 56 million by June 2004 (H1 2003: € 59 million), in the context of a continued weak civil aircraft maintenance business. Revenues were also about stable at € 1,631 million (H1 2003: € 1,613 million). As usual, revenues and profits, particularly of Eurocopter, will be much stronger towards the end of the year. The order book remained at € 10 billion as of 30 June 2004.

The **Space** Division recorded EBIT* of € -11 million in the first six months of 2004 (H1 2003: € -131 million). This is the same result as for the first quarter, inferring Space achieved a "black zero" result already in the second quarter, thanks to the first benefits of its restructuring programme and to improvements at EADS Space Services attributable to Paradigm business with the UK Ministry of Defence. This programme has been the main driver of the 8 % revenues increase to € 1,090 million. The order book amounted to € 11.0 billion at the end of June, boosted by the 30 launchers order from Arianespace booked in May and worth around € 3 billion.

EBIT* of the **Defence and Security Systems** Division deteriorated to € -82 million (H1 2003: € -28 million), primarily due, as previously announced, to a further restructuring charge of € 65 million (H1 2003: € 17 million) especially for the Defence and Communication Systems business unit. Revenues grew by 11 % to € 2,119 million mainly thanks to the ramp-up of missile and Eurofighter deliveries. The order book increased to € 14.5 billion per 30 June 2004, particularly thanks to the recent Acropol secured communication network order.

by Division (Amounts in millions of euros)

	EBIT *			Revenues		
	H1 2004	H1 2003	Change	H1 2004	H1 2003	Change
Airbus	**982**	621	+ 58 %	**10,024**	8,773	+ 14 %
Military Transport Aircraft	**- 10**	- 8	- 25 %	**234**	268	- 13 %
Aeronautics	**56**	59	- 5 %	**1,631**	1,613	+ 1 %
Space	**- 11**	- 131	+ 92 %	**1,090**	1,008	+ 8 %
Defence and Security Systems	**- 82**	- 28	- 193 %	**2,119**	1,902	+ 11 %
Headquarters Consolidation	**50**	79	–	**- 531**	- 504	–
Total	**985**	592	+ 66 %	**14,567**	13,060	+ 12 %

* 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 new lease of life for Airbus

The floor structure must carry up to 50 tonnes

EFW in Dresden, Germany, is EADS' centre of competence for the conversion of Airbus passenger aircraft into freighters (A300 & A310 widebody aircraft) and the associated maintenance.
The service life of a present-day passenger aircraft is typically at least fifteen years. Thanks to EFW, an Airbus can then go on to enjoy a second career as a freighter. At the rate of 1,500 hours a year, freighters spend about one-third less time in the air than passenger versions.

Up to 14 Airbus annually touch down at EFW to get a second lease of life.
The conversion process itself takes approximately 4 months. One of the main initial tasks is installing a 3.58m-wide, 2.57m-high cargo door on the forward left-hand side of the main deck, behind the passenger door, after the fuselage has been cut away and the reinforcing frames fitted. The cargo door arrives from Airbus fully equipped. It is opened by hydraulic power and is electrically controlled.

Loading and unloading operations can proceed with the door open in winds of up to 60 knots (depending on their direction).
The entire floor structure of the original passenger deck is then replaced with a new floor structure with higher strength.
The third operation involves installing the ball-bearing-mounted main deck cargo loading system.
Other equipment installed includes a protective net for the crew at the forward end capable of absorbing accelerations of up to 9Gs in the event of an abrupt emergency stop; installing four or five seats behind the cockpit for accompanying passengers; substituting fire-resistant metal plates for the windows; etc.
After extensive ground tests and subsequent customer acceptance, the conversion from a passenger Airbus to a dedicated freighter is complete and can now start into its second, profitable life.
As of today, EADS has delivered more than 100 converted freighters to 18 customers worldwide, including some top names like FedEx, DHL, Royal Jordanian or Qatar Airways.

Freight market carries weight

After a dramatic drop as in all air traffic, world air freight is picking up. The market showed surprising strength in 2003 with annual growth of nearly 4%. Also encouraging is the strength indicated by a further 10 % increase in world air cargo traffic for the first 6 months of 2004. And the continuing trend toward globalisation of trade and manufacturing will drive the market, according to specialists, to an average annual growth of around 6 % over the next 20 years. If the volume of traffic were to treble, the size of the global air fleet will almost double, exceeding 3,000 aircraft, compared to fewer than 1,700 today. Following the gradual withdrawal from service over the next ten to fifteen years of older aircraft, which account for nearly 70% of the present fleet, the freighter market will represent around 2,000 by airplanes 2023. Slightly more than three quarters of freighter fleet additions will come from modified passenger aircraft.
At present, the average payload capacity of single-aisle aircraft is 17 metric tons, but by 2020 about 60% of airlifters will be able to shift 45 metric tons, while behemoths like the A380 offering a capacity of 150 tons will also be flying. Not surprisingly, Airbus and Boeing are competing face to face on this market segment. New Airbus freighters like the A300F4-600R, plus A300s and A310s converted by EFW, represent over 150 Airbus cargo planes operating all around the world. Boeing, for its part, had around 270 747s and 160 DC-10s and MD-11s.
On domestic markets (payload capacity 10-25 metric tons) currently dominated by 727/737/757s, could the A320 ultimately become a contender? While this could happen, it could only be after the A320 has matured further, since airliners begin their second career as converted cargo planes only after 15 to 20 years. Until then, the residual value remains too high for prospective freight carriers who have to shoulder conversion costs ranging.
For the time being, EFW is filled close to maximum current capacity. In 2005, the company must convert 13 aircraft for an annual capacity of 14 conversions.

Airports gear up for the A380 megajumbo

So the A380 is very big. Its wingspan of 79.6m is 15m broader than that of the Boeing 747-400, its next biggest rival. The A380 is also the world's first double-decker jetliner, seating 555 passengers in a typical three-class configuration. That is around 35% more than the Boeing 747-400. But this raises a number of questions. If it is so much bigger than anything else, how are the airports going to cope? Will existing runways and taxiways be able to accommodate such a megajet when it arrives in 2006? And will airports be able to modify boarding ramps and baggage carousels in time to deal with the increase in passenger numbers?

These are clearly important questions. But they slightly obscure the real underlying issue. According to estimates in 15 years air traffic will have doubled, and in twenty-five years it will triple.

It is ultimately this growth in global aviation, not the arrival of the A380, which is the major challenge for airports. In fact, the A380 was conceived as a solution to the problem. Adaptation to bigger aircraft is cheaper, simpler and more space efficient than building new runways and gates. It is also a much more environmentally-friendly option.

The plane's wingspan, though huge, is within the limit recommended by the International Civil Aviation Organisation (ICAO). The A380's length meets standards recommended by the Airports Council International (ACI). The aircraft is also compatible with 45m (150ft) runway and 23m (75ft) taxiway widths.

Also, with its 16 large doors, four-aisle cabin, two stairs, two lifts and potential upper deck access, the A380, despite taking many more passengers, should allow a turn around time comparable with the 747-400. To achieve a 90 minute turn around while ensuring passenger comfort many gates will need to be upgraded, however. In March this year Airbus announced it had demonstrated in tests that, despite its size and weight, the A380's pavement loading factor matches that of existing large aircraft. This means that the new twin-deck aircraft will have no greater impact on the runway environment than aircraft already in existence.

While Airbus has been at pains to ensure that the new megajumbo does not make unreasonable demands of infrastructure, airports too have been gearing themselves up for the arrival of the A380.

Many airports are now speeding up upgrading work to ensure they will not miss out on A380 business.

Minor airside adaptations, gate widening and baggage belt extensions are being carried out at Singapore's Changi airport. By the end of 2005, some 11 gates will be ready for the A380. Another eight compatible gates will become available in 2008.

At Heathrow, which is expected to become one of the world's most important A380 hubs, a redevelopment programme has started to accommodate the plane. The project, worth € 163 million, is due to be completed by the end of 2005, in time for the first A380 to start operating at Heathrow in spring 2006. Pier 6 at Terminal 3 will be demolished and rebuilt to make more space for the plane's massive wingspan. The new development will offer four A380 stands each allowing passengers to board and leave from both levels of the aircraft.

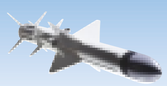
Similarly New York's JFK airport has embarked on an infrastructure improvement project which will include modernisation of facilities as well as modifications necessary to accommodate the A380. In 2006 eight A380 stands will be available. The project will cost $179m.

Five stands at Frankfurt Airport's Terminal 2 are already capable of taking the A380. At the airport's Terminal 1 work is now under way to have additional A380 stands ready by 2007. Paris Charles de Gaulle, Europe's third busiest airport by passengers is spending € 100 million to get ready for the A380, which will begin flying to the airport in 2007. The airport estimates that by 2010 at least ten percent of all passengers coming to CDG will be aboard A380s. The € 100 million investment includes measures to widen and strengthen two of the four runways at the airport. The third and fourth runways, having been built more recently, can already handle heavier and bigger planes. The airport is building the S3 satellite terminal at Terminal 2 to handle as many as six A380s at once. The tragic collapse of the new terminal 2E was clearly a major setback, as that terminal was scheduled to handle A380s. However, the Paris airport authority has been at pains to emphasise that the damage done will have no effect on the airport's ability to accommodate the plane when it comes into service. The race is now on. No airport wants to miss out on the action. Los Angeles had been due to invest billions in airport modernisation including new facilities for the A380, until the government cancelled funding. Only after it was realised that airlines would then most probably divert traffic to the rival airport at San Francisco, did Los Angeles airport and government decide to go ahead with upgrading. While the challenges facing airports are great, the potential rewards for those prepared for the A380 are clearly even greater.

Already 14 airports in Europe, Asia and Africa are capable of accommodating the plane. By the end of 2009 more than 60 airports will be ready for the Airbus A380.

Worldchampion

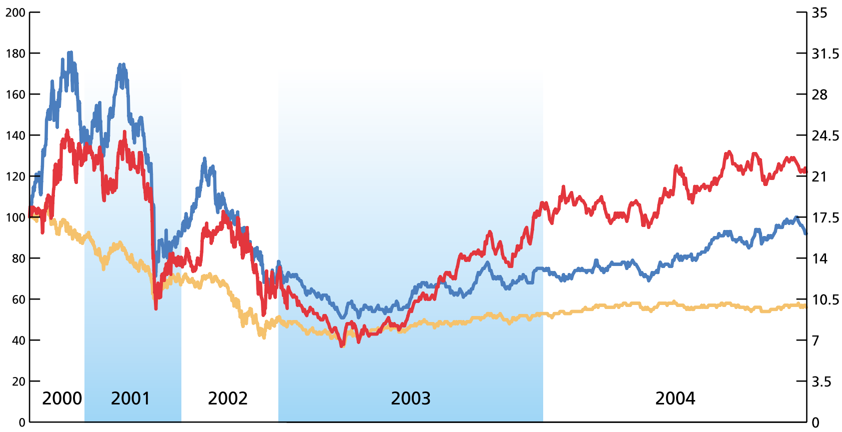
Munich airport is the first European airport to be certified as capable of handling the A380. And the plane is due to make a dramatic entrance there, touching down for the first time on the day of the 2006 World Cup opening game in Munich just a short distance from the stadium. Munich's new Terminal 2 building offers two large positions for A380 aircraft.



Your EADS shares

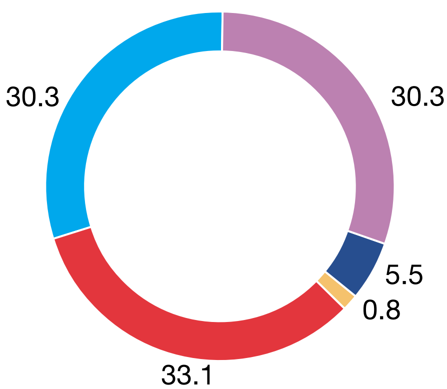
Stock price evolution

(base 100 dated 10 July 2000) EADS stock price (in €)



- EADS
- Boeing (Stock price converted in euro using daily dollar spot closing)
- CAC 40

Capital stucture as of 30 september 2004 (as %)



- DaimlerChrysler
- SOGEADE
  Lagardère and SOGEPA (French state holding Company)
- SEPI
  (Spanish state holding Company)
- Institutional, retail and employee ownership
  + Shares held out of the contractual partnership by the French state.
- Treasury Shares
  (Shares without economic or voting rights).

ISIN Code	NL0000235190
Number of issued shares	807,314,190
Offer price on 10 July 2000	19 € for institutional investors 18 € for retail investors
High in 2004 on Paris Stock Market	23.45 € on 29 June
Low in 2004 on Paris Stock Market	16.37 € on 22 March
Earnings per share (EPS) 2003 (pre-goodwill amortisation and exceptionals)	0.96 €
Dividend per share 2003 payed on 4 June 2004	0.40 € (gross amount)

After reaching its 3-year-high on 29 June (€ 23.45 per share), EADS shares were affected until the middle of July, by some investors' profit taking; stock has however shown a good resistance to the influx of DaimlerChrysler excess shares.
In the week of 19 July, during Farnborough Air Show, EADS shares outperformed the market, supported by the news flow and the optimistic mood regarding the upturn.
After a negative month, European equity markets bounced back from their year lows in the last week of August and first week of September, as oil prices retreated from very high levels with the feeling that situation in Iraq was starting to settle down. With the support of positive corporate news (6 A380 ordered by Thai Airways, Australian Ministry for Defence decision to acquire 12 NH 90 helicopters) , EADS shares recovered from their loss faster than overall markets, reaching € 22.64 on 7 September .
Then, equity markets traded in a rather tight, but also volatile range due to a combination of disappointing corporate outlooks and oil price racing. In this overall environment, EADS shares were not able to withstand the pressure, all the more that Airlines suffered from specific negative news, in particular the second filing for Chapter 11 by US Airways on 12-13 September. EADS share closed at € 21.33 on 30 September.

Shareholders diary

4 November 2004 :
9-month 2004 results release

3 December 2004 :
North America Investor Forum

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