



# aero-notes

Letter to our shareholders



Dear shareholders,

Happy New Year. 2004 is over, and your investment in EADS shares performed twice as well as the market, illustrated by the CAC index: EADS share ended the year 14% up.

The conspicuous press coverage EADS attracted around its management transition aggravated many: you expressed it on internet forums, our hotline and through mail. We acknowledge, and we regret! Yet, significant decisions such as the A350 "authorization-to-offer" were made in December, and management remained totally dedicated to the task at hand: consider the South Africa A400M participation, the Australian MRTT contract, the Galileo order to Astrium signaling European government commitment to Space, or the Air Europa choice of the A350.

Now, headlines have improved, the A380 was "revealed" to the four heads of state of Airbus home countries, to its future proud owners, employees and the public at large in a memorable ceremony. Few noticed the "WOW" in the tail number, yet it best summarized the mesmerizing impression left on all present: The A380 is the awesome symbol of what Europeans can do together; it is diversity at work!

But the A380 is also an example of the chance of globalization, in the most positive sense: partnerships that made this feat possible span the Atlantic Ocean, so the A380 is also an American accomplishment, in a very real way: a third of the value of this aircraft is imported from the United States.

It highlights how close our industries have become, a realization that underpins our North American strategy. In this issue, Ralph Crosby, CEO of EADS North America, tells us face-to-face why he is so optimistic about its outlook.

The uncertainties of late 2004 are lifted, FY earnings estimates suggest we had a "very good year", EADS Space broke even and is building profit momentum; Airbus deliveries in 2005 should exceed 350 aircraft. A new phase of EADS life has started, it promises to be exciting.

Pierre de Bausset  
Senior Vice President, Investor Relations  
and Financial Communication

## Summary

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# 9 months results 2004



## Very Strong 9 months Performance

In the first nine months of 2004 EADS achieved an EBIT\* (pre-goodwill and exceptionals) of € 1,500 million, 91 percent higher than in the same period of 2003 (€ 784 million). Driven by stronger Airbus aircraft deliveries and Space turnaround, EADS' EBIT\* margin has gone up from 4.2 to 7 percent.

Growth in all EADS divisions boosted revenues by 16 percent to € 21.5 billion (9/2003: € 18.5 billion), in particular the increase of Airbus deliveries to 224 aircraft (9/2003: 199). Revenues of the defence and homeland security businesses grew year over year, however, they typically are strongest towards the end of the year. Free Cash Flow before customer financing strongly improved to € 147 million (€ - 92 million) and customer financing gross exposure was slightly reduced.

### Defence business expanding

A large number of recent market achievements are contributing to the strengthening of EADS' defence and homeland security business. The NH90 success in Australia and Oman, the start of the MEADS programme in the US and Italy, helicopter orders by the

US Department of Homeland Security, the large system integration contract for Romanian border security and the growing interest in Paradigm's satellite communication offering (including the first contract with Portugal) are only a few obvious examples. In the US, EADS has won a number of new contracts, positioned Eurocopter in the US homeland security market, acquired Racal Instruments, extended partnerships with Northrop Grumman and Lockheed Martin and in October opened a brand-new American Eurocopter assembly line in Columbus, Mississippi."

### Net Income more than doubled – Strong Cash position maintained

EADS more than doubled Net Income to € 597 million in the nine months of 2004 (9/2003 pre goodwill: € 242 million), or € 0.75 per share (9/2003: € 0.30). This was primarily driven by strong EBIT\* growth. EADS maintained a strong Net Cash position at € 2.8 billion (year-end 2003: € 3.1 billion).

Free Cash Flow before customer financing amounted to € 147 million in the first nine months of 2004 (9/2003: € -92 million), pri-

marily reflecting stronger operating performance, which has more than offset increased capital expenditures in relation to Paradigm. This was achieved after A380 build-up, thanks to ongoing inflow from customer advances and stronger delivery rates.

### EADS' strong order book

The EADS order intake remained close to the level of revenues and amounted to € 20.6 billion from January to September 2004. In the same period of 2003, EADS had recorded exceptionally large contracts such as the € 20 billion A400M procurement and 21 orders for the A380 leading to an order intake of € 49.5 billion.

A decrease of the Airbus order book due to higher deliveries and the weakening of the US Dollar was more than offset by the increase of the Space, Aeronautics and Defence order book. Therefore, the EADS total order book slightly increased compared to year-end 2003, reaching € 179.7 billion at the end of September 2004. Out of this total, € 45.5 billion come from the Defence and homeland security businesses.

## EADS – 9 Months Results 2004 (Amounts in Euros)

EADS Group	01 – 09 / 2004	01 – 09 / 2003	Change
Revenues, in millions	<b>21,459</b>	18,536	+16%
of which defence, in millions	<b>4,228</b>	3,564	+19%
EBITDA <sup>(1)</sup> , in millions	<b>2,613</b>	1,877	+39%
EBIT*, in millions	<b>1,500</b>	784	+91%
Research and Development costs, in millions	<b>1,612</b>	1,561	+3%
Net Income <sup>(2)</sup> , in millions	<b>597</b>	242	+147%
Earnings per Share (EPS)	<b>0.75</b>	0.30	0,45 €
Free Cash Flow before Customer Financing, in millions	<b>+147</b>	-92	-
Order Intake, in millions	<b>20,603</b>	49,453	-58%

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 – 2003 figures re-stated to allow for comparison



# Estimated 2004 and guidance for 2005



## Estimated Financial Performance 2004:

### Maintaining the Track Record

EADS will again deliver on its performance promises when it announces its 2004 results on March 9th. Preliminary estimates for 2004 financial performance show that the company has exceeded financial targets for the fifth closing in a row.

2004 EBIT\* is estimated to be in excess of € 2.3 billion, compared to the earlier target of € 2.2 billion, putting the 2004 EBIT\* margin at over 7 percent, well above the 5.1 percent achieved in 2003 and on the right path to the 10 percent operating margin goal. The difference from earlier forecasts mainly reflects the higher number of Airbus deliveries (320 units, previous target based on 315 units) and the good performance of the Defence and Security Systems Division.

EADS' 2004 estimated revenues are around € 32 billion, based on an average currency

exchange market rate € 1 = US\$ 1.24. Revenue growth was supported by the defence businesses which had revenues estimated at close to € 8 billion in 2004 (€ 7.1 billion in 2003). Further growth towards EADS' € 10 billion defence revenue goal is supported by a very solid military order-book which is now close to € 50 billion, reflecting the outstanding competitiveness of many EADS products such as A400M, Eurofighter, NH90, Tiger, MRTT, Skynet 5, Aster and others. Cash generation has surpassed expectations again in 2004. Year-end net cash position is estimated to be significantly in excess of the year-end 2003 level (€ 3.1 billion). Cash generation was better than expected in the Defence and Security Systems, Airbus and Space divisions. The very solid cash position provides EADS with all the required flexibility

to contemplate value creative investment opportunities and to share the fruit of its successes with its shareholders. EADS expects the 2005 EBIT\* to exceed € 2.4 billion.

The above mentioned estimates have not been reviewed by EADS' independent auditors, nor have they been presented yet to the Board of Directors or to its Audit Committee.

\* 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.

## EADS Financial Guidance for 2005:

### Revenues and EBIT\* to further Grow

EADS expects its 2005 revenues to grow to around € 33 billion and EBIT\* to more than € 2.4 billion. For 2004, EADS had forecasted revenues of € 32 billion and EBIT\* of € 2.2 billion. On that basis, the 2005 guidance represents three percent revenue growth and more than nine percent EBIT\* increase.

The EADS revenue guidance is calculated on a 2005 exchange rate assumption of US\$ 1.30 to the euro compared to € 1 = US\$ 1.23 in 2004.

EADS expects Airbus to deliver 350-360 aircraft in 2005, entirely out of the existing order book. Revenues from its defence business should continue to grow and reach around € 8.5 billion in 2005, or approximately 26 percent of total group revenues. The defence business will be mainly driven by progress with the A400M and Paradigm programmes, higher missile deliveries and the ramping up of NH90 and Tiger helicopter

deliveries.

Airbus EBIT\* growth will be driven by increased volumes. At the same time, Airbus' self-funded R&D expenses will remain on the 2004 level, mostly accounted for by A380 development expenses and the launch of the A350 programme. While the Military Transport Aircraft and Space divisions are expected to contribute to the 2005 overall EBIT\* improvement, the Defence and Security Systems and Aeronautics divisions are expected to achieve stable results in 2005.

EADS expects 2005 earnings per share (EPS) of € 1.20, based on anticipated Net income of about € 1 billion, post minorities and exceptional items and computed on an average number of shares estimated to be around 807 millions shares in 2005.

EADS will continue to invest in the Skynet 5 military satellite communications system expected to be operational with the British

forces in 2007. Excluding this particular investment, EADS intends to maintain a positive free cash-flow pre customer financing. Customer financing net additions are expected to be limited.

EADS foresees order intake in 2005 to match revenues. The order book should remain strong and well in excess of € 170 billion based on € 1 for US\$ 1.30.

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## Our Future in the U.S. Market Remains Bright



Ralph Crosby,  
CEO EADS North America

Ralph Crosby, CEO of EADS North America tells us why he is so optimistic about its outlook.

### ■ You recently closed the acquisition of Racal. Has this operation changed the US authorities perception? Is it the promise of bigger operation?

Racal Instruments is our first major acquisition. It serves not only to enhance the range of test and services capabilities we offer to our customers, but also to further familiarize our defense customers with the scope and value of offerings to the U.S. defense community. We consider this first initiative a great success, both in terms of the integration of Racal activities into those of the EADS North America Defense Company, and the response we are receiving from our customers and Defense Department authorities. The positive results of this acquisition positions us well to expand defense activities by acquiring and integrating U.S. companies.

### ■ How has your organization changed to accommodate the US market and how do you insure the integration of the US business activities with the European ones?

We established EADS North America Defense Company in October 2004 specifically to enhance our responsiveness to our growing business in defense-related fields, while meeting our customers' security related needs. Even as we grow our U.S. operations organically, through acquisition, and by investment, the linkages between EADS North America and EADS divisions and Business Units will remain a key enabler to lever-

age the group's capabilities and market competitive solutions, both directly and in partnership with other leading U.S. defense and aerospace companies.

### ■ How has the continuation of the current administration affected your strategy?

Our strategy was developed to serve the long-term interests of EADS in the United States and take into account the dynamic nature of American politics. We are doing this by providing advanced solutions to our customers and supporting their evolving needs, building our U.S. industrial presence, and contributing to the U.S. economy – both directly and indirectly. We are creating jobs, bringing technology and systems to the U.S. market, and seeking to contribute to the nation's defense and security. We will continue to pursue these goals.

### ■ Does it mean that EADS' chances to win the Air Tanker competition improve?

We intend to build a strong U.S. industrial team to meet U.S. Air Force aerial refueling requirements. The commercially proven Airbus A330, our capabilities in missionized aircraft, and our successes in the global aerial refueling market establish a strong foundation for our KC-330 advanced tanker that will compete for the Air Force tanker replacement. Our participation in this competition is good for the U.S. armed forces, for the U.S. taxpayer, and, of course, for our shareholders by providing a competitive source. We will offer a substantially American solution, so the economic benefits, including the creation of high quality aerospace jobs, will be significant.

### ■ Recently they have been many successes for EADS in the US and particularly for helicopters. Why are helicopters one of EADS bestseller?

American Eurocopter has made significant gains in the U.S. market because it offers a technically superior product coupled with a compelling value for our customers. We have built a reputation for superior customer service and attention to their diverse requirements, so we continue to be successful in converting opportunities into business.

### ■ What's the outlook for EADS North America?

We are optimistic about the opportunities in front of us, and the foundation we have built since September 2002. There will always be challenges in any business venture, but our strategy is a robust one, our accomplishments to date are notable, and our future in the U.S. market remains bright.

### ■ EADS North America's strategy

- Offer proven and capable platforms, systems and services that meet or exceed our U.S. customers' operational requirements by drawing on the corporation's proven technology, technical expertise and value.
- Expand our industrial footprint in the U.S. marketplace. To be successful we need to have strong U.S.-based manufacturing and assembly capabilities. This can also be achieved by pursuing opportunities to acquire U.S.-based companies.
- Leveraging EADS' advanced capabilities and products to offer advanced solutions to our U.S. customers. For example, our expertise in large commercial and military transport aircraft serves as a strong foundation for success in the future Air Force tanker competition.
- Building strong industrial partnerships with leading U.S. aerospace and defense companies to deliver advanced capabilities.



# A380



## The A380 in the limelight

The world took its first official look at the biggest airliner yet built during a spectacular ceremony attended by the leaders of four countries, the heads of 14 airlines and operators – Airbus' A380 customers – shareholders and thousands of invited onlookers, including hundreds of journalists.



Heads of State help celebrate the A380



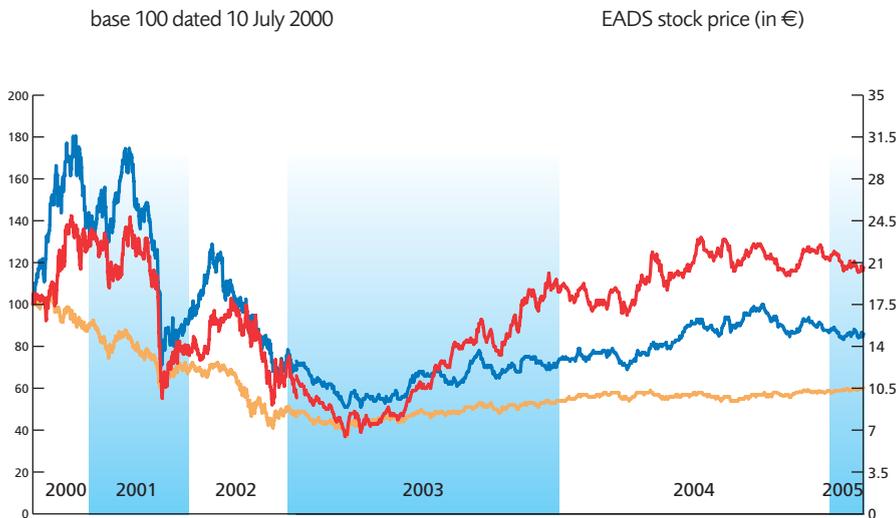
"A great day for Europe and the aviation industry"



The aircraft was painted in Toulouse over nine days by a team of 100 French and German volunteers working round the clock right through the festive season.

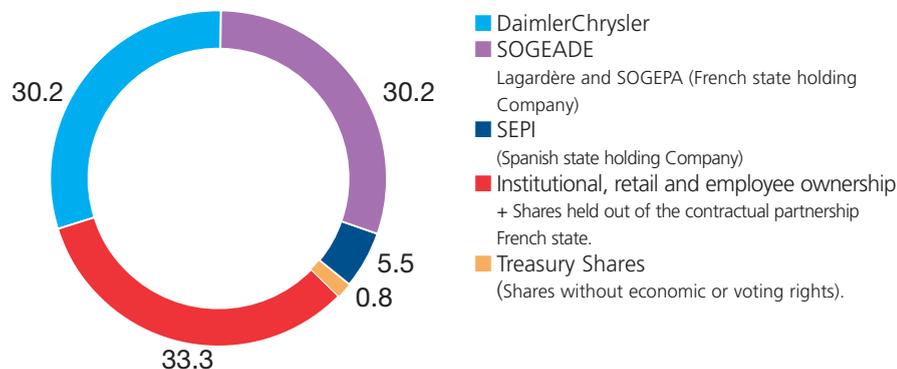


## ■ Stock price evolution



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

## ■ Capital structure as of 31 December 2004 (as %)



During the first half of December, the EADS share price continued a 14% slide which had started after the share reached its year 2004 high of € 24.90, on 11 November. For the first time since March 2003, the market suddenly grew sceptical of the EADS story. The wide press coverage of the management designation issue, the US dollar losing more than 7 cents against the Euro, and the high price and volatility of oil prices provided the background. Additionally, cost overruns on the A380 programme, anxieties concerning R&D costs after the launch of the A350, and a 2005 financial guidance which was considered too conservative amplified the movement of year-end profit taking and the exercise of stop-loss orders. The stock finally reached a strong support level, and core institutional shareholders decided to add to their positions, comforted by the lifting of uncertainties on management, and a concentrated stream of positive newsflow on the Australian MRTT, the A400M and Galileo, which provided some rebound between 17 and 23 December. From 6 January, markets began to anticipate positive news surrounding events such as the Airbus press conference and the reveal of the A380, which pushed the stock up to about € 23.90. The estimated 2004 figures release added fuel to this movement. Since the beginning of the year, EADS shares were up 10%, while the CAC40 progressed by 3%.

## ■ Shareholders diary

- 9 March 2005: Annual results 2004 release
- 11 May 2005: Annual General Meeting in Amsterdam
- 13-19 June 2005: Le Bourget Air Show

ISIN Code	NL0000235190
Number of issued shares	809,579,069
Offer price on 10 July 2000	€ 19 for institutional investors € 18 for retail investors
High in 2004 on Paris Stock Market	€ 24.90 on 11 November
Low in 2004 on Paris Stock Market	€ 16.55 on 22 March
Earnings per share (EPS) 2003 (pre-goodwill amortisation and exceptionals)	€ 0.96

## Shareholders Information

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