



aero-notes

Letter to our shareholders



Dear shareholders,

In 2004, EADS achieved or exceeded its targets for the fourth time in a row. And last year was our fifth consecutive year of successes and challenges mastered, among which delivery of the 5,000th Airbus, the strengthened presence of Eurocopter in

China and the export contracts for the NH90 are worthy of special mention. Nor should we forget the sale of the Multi Role Tanker Transport (MRTT) aircraft to Australia, the signature of the Tranche 2 contract for Eurofighter, the programme start for Euromale, the launch of the HELIOS IIA observation satellite or, more generally, the excellent performance of our space and defence activities. At long last we have confirmation that air transport is recovering, which gives us good reason for optimism with regard to passenger aircraft sales. Since the start of 2005, successes have continued with the rollout of the A380, the launch of the 10-tonne version of Ariane 5 and downselection of the Future Strategic Tanker Aircraft (FSTA) by the UK's Royal Air Force. But, beyond our recent achievements, together with you, we should like to look back on the five years of our chairmanship.

Five years ago: who could have thought that EADS would become a global benchmark? Five years ago EADS was no more than an idea!

But, when a great idea is realized with enthusiasm and determination, and when this idea is sustained by the efforts of more than 110,000 employees and the confidence of more than a million shareholders, the industrial, commercial and financial performance will surpass all the targets set.

And it is the share price that is one of the indicators of such performance. Since our initial public offering in 2000, our share has risen by about 20% while, over the same period, the CAC 40 index has lost 40% of its value. The return for EADS shareholders since the company's foundation has therefore been double that of all the companies represented on the CAC 40.

Today, EADS is the world's Number 2 in its sector. Its ability to innovate and surpass its own goals ensures a future full of promise – the step beyond.

And we are extremely proud that the reality has passed beyond the bounds of imagination.

Philippe Camus and Rainer Hertrich
CEOs

Summary

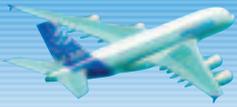
P2: annual results 2004

P3: annual results 2004
by division

P4: Encounter with
François Auque

P5: Inside EADS : Ariane

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EADS entered into a new growth period in 2004

For the fifth consecutive year, EADS exceeded its financial targets. EBIT* (pre-goodwill and exceptionals) stood at € 2.4 billion for the year, up 58 percent over 2003, Net Income was up 60 percent to € 1.03 billion. EADS' EBIT* margin rose from 5.1 percent to 7.7 percent in 2004, an unprecedented level for EADS. Stronger revenues of € 31.8 billion (2003: € 30.1 billion) were achieved through growth across all five divisions. Key growth drivers were Airbus, which benefited from the start of the market upturn, and EADS Defence businesses, up eight percent to € 7.7 billion (2003: € 7.1 billion).

The strong EBIT* growth follows solid profit improvement at Airbus and Space. At Airbus, EBIT* surged to € 1.922 billion, or 9.5 percent of revenues mainly due to higher deliveries, a higher proportion of large aircraft deliveries and cost savings. The Space Division returned to profitability on schedule. The Defence and Security Systems Division's EBIT* increased by 33 percent (€ 57 million). The Aeronautics and Military Transport Aircraft Divisions each achieved an EBIT* close to 2003 levels. The Research and Development (R&D) expenditure in 2004 stood at € 2.1 billion, reflecting EADS' continued high level of investment in innovation (2003: € 2.2 billion, 2002: € 2.1 billion). As in 2003, about half of this was spent on R&D for the A380, the 555-seater Airbus aircraft expected to generate more than US\$ 175 billion in sales in the first fifteen years of production after entry-into-service in 2006.

Order Book continues to increase

The EADS order intake remained strongly above the level of revenues and amounted to € 44.1 billion in 2004.

The EADS order book increased by nearly three percent to € 184.3 billion (2003: € 179.3 billion). At constant exchange rates, the increase would have been about seven percent. 2004 saw continued growth in the defence order book, to € 49.1 billion.

Strong increase in Cash – after continuing investments

EADS' net cash position was boosted 31 percent to € 4.1 billion (2003: € 3.1 billion) signalling early market recovery in the commercial aircraft market and better management of programme financing in Defence.

Free Cash Flow before Customer Financing was again strongly positive reaching € 1.8 billion (2003: € 2.1 billion). This performance includes the high R&D and investment spending for the A380 and the company's continued investment in other future growth drivers like the A400M, NH90 and other helicopters, Paradigm Secure Communications and the tanker boom.

Airbus Customer Financing also indicates a commercial aviation recovery as gross exposure has decreased since 2003 following two years of strong net cash demand.

Net Income of € 1.03 billion

Net Income in 2004 was at € 1.03 billion, up 60 percent from last year's Net Income of € 644 million. The 2003 figure (reported at

€ 152 million) was restated for comparison following the implementation of the IFRS3 accounting rule. Net Income no longer includes regular goodwill amortization. Earnings per share stood at € 1.29, up from € 0.80 in 2003.

Dividend proposal of € 0.50 per share

In light of EADS' continuing strong performance, the Board of Directors is recommending to the Annual General Meeting of shareholders an increased dividend of € 0.50 per share.

Outlook

EADS expects its 2005 revenues to grow to around € 33 billion, impacted partly by a weaker dollar assumption (€ 1 = US\$ 1.30). Defence revenues should increase by 10 percent during the course of the year.

EBIT* is expected to grow to more than € 2.6 billion (up six percent), reflecting an increase in divisional performance across the group, partly offset by less favourable hedges and by the weak US Dollar for the unhedged portion of the net exposure.

EADS expects Airbus to deliver 350-360 aircraft in 2005. Airbus revenues are expected to increase in line with higher deliveries of single aisle aircraft. The 2005 aircraft mix will be less favourable than in 2004. The positive accounting impact from the Airbus GIE merger into Airbus SAS is expected to diminish in 2005. Free Cash Flow before Customer Financing and Paradigm investment outflows is expected to be positive in 2005. Earnings Per Share should increase in 2005 by five percent to € 1.36, based on an average of 803 million shares.

EADS – Results 2004 (Amounts in euros)

EADS Group	2004	2003	Change
Revenues, in millions	31,761	30,133	+5%
there of defence, in billions	7.7	7.1	+8%
EBITDA ⁽¹⁾ , in millions	3,853	3,137	+23%
EBIT*, in millions	2,444	1,543	+58%
Research and Development costs, in millions	2,126	2,189	-3%
Net Income ⁽²⁾ , in millions	1,030	644	+60%
Earnings Per Share (EPS) ⁽²⁾	1.29	0.80	+61%
Free Cash Flow before Customer Financing, in millions	1,802	2,143	-16%
Net Cash position, in millions	4,058	3,105	+31%
Dividend per share	0.50 ⁽³⁾	0.40	+25%
Order Intake, in millions	44,117	61,150	-28%
Order Book, in millions	184,288	179,280	+3%
Employees, (at year-end)	110,662	109,135	+1%

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 2003 Net Income had been reported previously at € 152 million, after goodwill amortization, and EPS at € 0.19.

3) to be proposed to AGM on 11 May 2005



Annual results 2004 by division



Solid profit improvement at Airbus and Space

■ **Airbus** in 2004 delivered 320 (2003: 305) aircraft - ahead of its competitor (285). Airbus booked 370 gross orders, well above deliveries and considerably more than its competitor (277). Airbus' gross market share was 57 percent in units and 54 percent in value. As in 2003, the fourth quarter of 2004 was particu-



larly strong with 96 deliveries and 181 orders. The Airbus Division EBIT* surged to € 1,922 million (2003: € 1,353 million) mainly driven by higher aircraft deliveries with a higher proportion of large aircraft, cost savings and an accounting-driven positive net impact from the Airbus GIE merger into Airbus SAS (€ 232 million) and R&D capitalization, which stood at € 152 million, corresponding to A380 development. It was partly offset by less favourable hedges. Airbus' EBIT* margin reached 9.5 percent. Revenues increased by six percent to € 20,224 million. At the end of 2004, the Airbus order book stood at 1,500 commercial aircraft (2003: 1,454), nearly 40 percent above that of its competitor.

■ The **Military Transport Aircraft** Division signed in December 2004 a contract worth € 800 million for five A330 MRTT (Multi-Role Transport Tanker aircraft) for the Australian Forces. The division recorded a 40 percent increase in revenues to € 1,304 million mainly driven by milestones reached in the A400M programme. The EBIT* of € 26 million (2003:

€ 30 million) was affected by early retirement charges of €28 million (2003: € 17 million)



and expensed pre-contract costs for the British tanker programme (FSTA). The order book remained stable at € 19,897 million (2003: € 20,007 million).

■ In the **Aeronautics** division Eurocopter's continued EBIT* growth was offset by persisting difficulties in the commercial aircraft maintenance business leading to an EBIT* of € 206 million (2003: € 217 million). At € 3,876 million revenues slightly increased. At the end of 2004, the Aeronautics order book amounted to € 10,171 million (2003: € 9,818 million). With 322 new helicopters ordered and 279 delivered in 2004, Eurocopter once again confirmed its world market leadership with a market share in the commercial business of 53 percent.



■ The **Space** Division achieved its turnaround as scheduled. Its 2004 EBIT* of € 10 million (2003: € -400 million) is now set to grow. EADS SPACE revenues were up to € 2,592 million. The order book has nearly tripled since 2002 to € 11,311 million (2003: € 7,888 million; 2002: € 3,895 million). 2004 order book growth



Ariane 503

was mainly due to contracts such as the Automated Transfer Vehicle (ATV) from ESA, the order for 30 Ariane5 launchers, and the M51 first tranche production contract. EADS SPACE built on the strong business model of the Paradigm contract as third parties (NATO, Portugal) joined the service.

■ The **Defence and Security Systems** Division's revenues were up four percent to € 5,385 million, mainly driven by the growth of MBDA. The EBIT* increased by € 57 million to € 228 million, including a provision release on a litigation (€ 106 million), partly offset by some restructuring charges of € 88 million (2003: € 50 million), campaign costs on Herkules, as well as self-financed investments in future business. EADS Military Aircraft and MBDA



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supported the Division's profitability most. Since the creation of EADS, the DS Division has gone through thorough restructuring. This is expected to be positively reflected in the Division's future results.

At EADS Headquarters, EBIT* contribution deteriorated from € 172 million to € 52 million, mainly due to the IFRS treatment of the Dassault Aviation participation.

* EADS uses **EBIT pre-goodwill amortization and exceptionals** as a key indicator of its economic performance. 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 formation of Airbus S.A.S. and the formation of MBDA, and impairment charges.

by division	EBIT(*)			Revenues		
(Amounts in millions of euro)	2004	2003	Change	2004	2003	Change
Airbus	1,922	1,353	+42%	20,224	19,048	+6%
Military Transport Aircraft	26	30	-13%	1,304	934	+40%
Aeronautics	206	217	-5%	3,876	3,803	+2%
Space	10	-400	+103%	2,592	2,424	+7%
Defence and Security Systems	228	171	+33%	5,385	5,165	+4%
Headquarters Consolidation	52	172	-	-1,620	-1,241	-
Total	2,444	1,543	+58%	31,761	30,133	+5%



■ EADS SPACE: all roads lead to this European player ■



François Auque
CEO of EADS SPACE

■ After three years of losses, you have achieved and even exceeded your financial target of getting back into the black. This recovery is spectacular, but can it last in the face of an economic environment that continues to show weakness?

Over the past two years, groundwork has been done in order to reorganize EADS' SPACE activities: centres of competence have been set up and transnational integration has been introduced; 100% control has been gained over EADS Astrium and Paradigm thanks to acquisition of the BAE Systems share. The result showing a slight profit for 2004 is just the first tangible evidence of how effective the company's reorganization has been. The full effect will unfold in 2006. From 2005 on, this will allow us to contribute significantly to the profitability of EADS, even within the context of stiffer competition caused by the weakness of the dollar.

■ Will this return to balanced figures lead you to change your strategy, now that you are able to concentrate solely on the development of your business activities? Along what lines will you be developing?

These last two years have been marked by EADS SPACE making acquisitions that are extremely strong from the strategic and commercial points of view. With the creation of Paradigm, we have become the global leader in secure telecommunications services. We have become the world leader in Earth observation and we are the only European company to export this type of satellite (to Taiwan

This year, EADS SPACE has reaped the benefits of three years of hard work. Having completed its restructuring, the Division can now look more confidently to the future and fully play its central role in the European space adventure.

and Thailand). We are, in short, the only European player which has a mastery of both civil and military launcher technologies, which means that all roads lead to us in the field of missile defence. We are building the future of EADS SPACE on these foundations, especially thanks to services, which is the only sector of the space business in which there is strong and lasting growth.

■ The successful launch of the ECA version of Ariane 5 has removed many of the uncertainties associated with the continuation of this programme, in which EADS SPACE acts as prime contractor. Will this success ensure the future of the European launcher and its competitiveness?

Thanks to the hard work put in by all the employees involved and the companies who are cooperating in this programme, the flight that took place on 12 February was a success. So Arianespace now has the reliable high-performance launcher at its disposal that will allow it to meet market demands. On top of this success, we nevertheless need to prepare for the future while at the same time keeping the competencies of our teams at the best possible level. This is all the more difficult since the development of the M51 ballistic missile is reaching its conclusion, as is that of the Automated Transfer Vehicle ATV. It is therefore indispensable for us to get significant funds released, even in times when there are strong budgetary constraints in the European states. And we are working on this.

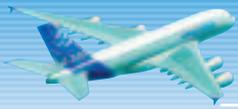
■ And what about that other major European project, Galileo? In early March, Brussels postponed the selection of the concessionary for the radio navigation system. Some observers have been calling for a joint effort by the two competing consortia. Is this a conceivable solution?

It is up to our customer to decide. I for my part am insisting on the concessionary being an efficient and experienced operator. To me, the experience we are offering through Paradigm seems to be the deciding trump in this project.

■ Ariane, Galileo, ... EADS SPACE wants to be the main pillar in the European space adventure: can the consolidation that is currently taking place between the different players call into question your role as a driving in the industry?

In the space field, EADS SPACE occupies the third position in the world, behind Boeing and Lockheed Martin. The leading position we have attained in secure communications, the prime contractor roles acquired in the Ariane and ballistic missile programmes, our successes in the satellite field: these all make EADS SPACE the dominant European player in the space sector. We are therefore firmly resolved to continue playing a decisive role in rationalization so that Europe will have a space industry that reflects its aspirations.

EADS SPACE, a 100% subsidiary of EADS, is a global leader in the space industry. The Space Division designs, develops and manufactures satellites, orbital infrastructures and launchers through its subsidiaries EADS Astrium and EADS SPACE Transportation (EADS ST) and provides space services through its subsidiary EADS SPACE Services. This Division also indirectly provides launch services through its shareholdings in Arianespace, Starsem and Eurokot as well as services relating to telecommunications and Earth observation satellites through its specialized companies such as Paradigm. EADS SPACE has a workforce of 11,000 employed at sites in France, Germany, Great Britain and Spain and its contribution to the Group's revenues amounts to approx. 8%.



Back on the road to success

There is no doubt that the 12th of February 2005 will always be an important date in the history of the European space industry. This was the day when the ten-tonne version of Ariane 5, the ECA, rose into the skies above Kourou with a payload of a little more than eight tonnes on board, the Spanish Xtar-EUR satellite, the Maqsat instrumented model and the Slosat micro-satellite: a success that obliterates the setback experienced on the occasion of the first flight and, two years on, enables Europe's space industry to look to the future, with this "beefed-up" version of the launcher ensuring the competitiveness of Ariane. Ariane 5 ECA is exceptionally powerful, being designed to launch two satellites at only slightly higher cost than that of the basic version currently in use. Two for the price of one! This recipe will allow Ariane to position itself to better effect in competition with its main rival, the Russian Proton launcher, which is used by International Launch Services, a joint venture consisting of the

American Lockheed Martin and the Russian Khrunichev. The difference to Boeing with its Delta 4 launcher and Lockheed Martin with the Atlas 5, both concentrating essentially on government orders and supported by massive injections of credit, is that military orders only account for 10 % of the Arianespace business. Here, the future is to be seen in the commercial satellite business. Today, as far as payloads are concerned, the European launcher has a well-filled launch schedule. It has 40 satellites on its waiting list, i.e. 25 to 30 launches, while none of its competitors has more than a dozen launches on order. Will such a lead guarantee that Europe can retain its independent access to space? Certainly in the immediate future, but the year 2004 with only three rockets launched showed that the situation was still precarious. And if the future looks brighter, this is also because there is no letup in the demand for channels while at the same time there seems to be a steadying in the size of the satellites. A slow upturn in the commercial business is therefore conceivable, but this will take place within a different economic frame – with prices kept extremely low due to the Russian and Ukrainian competition, with this trend being reinforced before the end of the decade by the return of the Chinese and the arrival of India. In governmental business there has long been little activity outside the USA, but here too growth can now be seen in Europe thanks to the increasing numbers of scientific missions, which are likely to play a larger economic role compared to the declining commercial business. The launch into orbital position and maintenance of constellations such as Galileo will probably also play a major role in this recovery. And it is for missions of this type that independent access to space is of the utmost strategic importance.

This is why in 2003 the ministers representing the fifteen member states of the European Space Agency (ESA)

launched a plan for Europe's guaranteed access to space (EGAS), also guaranteeing Ariane financial support over the period 2004-2009, thus putting the launcher on an equal footing with its international competitors. In this way, Europe has provided itself with the means of fully assuming its role as a major player in the space field.



The success of the qualification flight V164 offers a new start to Europe's space odyssey

■ EADS, a central pillar in the restructuring of the European space industry

In launching the EGAS plan, the European ministers undertook to give financial guarantees regarding the future of Ariane. In exchange, they received a commitment from industry to considerably reduce costs and to agree on the complete reorganization of the launcher sector of the space business.

EADS SPACE Transportation (EADS ST) has therefore been designated single prime contractor for Ariane 5. As a result, EADS ST is responsible for supplying Arianespace with a complete and tested launcher and managing all the contracts needed to achieve this. It has also undertaken to reduce the production costs for Ariane by 30 % from the next series production batch on and to lower the development costs by 40 million euros. As a consequence, it has received an order for 30 launchers worth roughly three billion euros.

EADS ST has also become the sole point of contact for ESA with regard to coming developments.



The ten-tonne version of Ariane 5, the ECA, rose into the skies above Kourou.



Your EADS shares



Stock price evolution

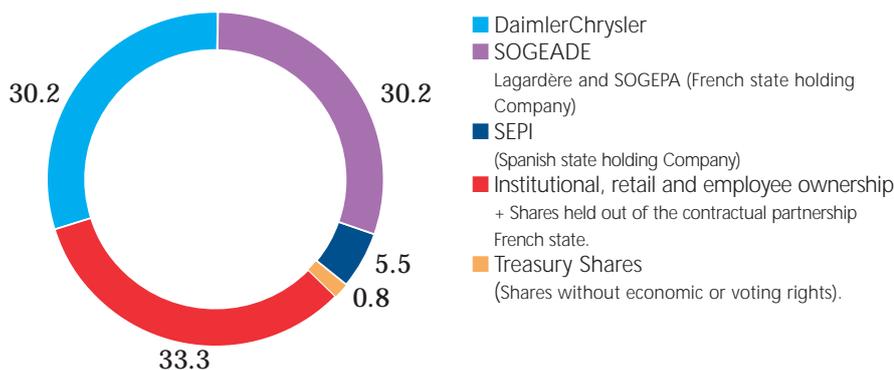
base 100 dated 10 July 2000

EADS stock price (in €)



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

Capital structure as of 31 December 2004 (as %)



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 2005 on Paris Stock Market	€ 24.60 on 21 February
Low in 2005 on Paris Stock Market	€ 20.76 on 15 January
Earnings per share (EPS) 2004 (pre-goodwill amortisation and exceptionals)	€ 1.29
Dividend per share 2003	€ 0.40
Dividend per share 2004	€ 0.50*

* to be proposed to AGM on 11 May, 2005

During the last two months, the EADS share price has been relatively volatile. After reaching its peak 2005 level on February 21st at 24.60, EADS stock price has suffered (up to 4.6% drop in one day), as the US\$ has shown weakening, while oil prices surged again.

Although annual results released on March 9th and numerous order announcements dominated EADS' news flow, movements of the €-\$ exchange rate best explain the strong share price inflexions during the period. It varied widely within a band from 1.2760 to 1.3450, and passages through important €-\$ technical ceilings and floors provoked large reversals and shifts in the EADS stock price.

Although the FY 2004 earnings and 2005 guidance release attracted mostly praises, the share price lost more than 6% in just three days. The UK MOD announcement of Air Tanker's preferred bidder status, the Iberia or Air Asia orders, had no meaningful impact on trading, nor did US WTO-case threats, Daimler Chrysler's close-ended comments on Thales, continued indecision on the Airbus CEO succession or bleak A380 rumors. Since the beginning of the year, EADS shares were up 10% while the CAC 40 progressed by 7%.

Shareholders diary

9 May 2005 :
Results first quarter 2005

11 May 2005 :
Annual General Meeting in Amsterdam

13-19 juin 2005 :
Paris Air Show

Shareholders Information

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