First nine months 2004 Report

Unaudited Condensed Interim Consolidated Financial Information of EADS N.V. for the first nine months of 2004

Unaudited Condensed Consolidated Income Statements

	January 1 - September 30, 2004		January 1 - September 30, 2003		Deviation	
	M €	%	M €	%	M €	%
Revenues	21,459	100	18,536	100	2,923	16
Cost of sales	-17,026	-79	-14,940	-81	-2,086	14
Gross margin	**4,433**	**21**	**3,596**	**19**	**837**	**23**
Selling, administrative & other expenses	-1,637	-8	-2,126	-11	489	-23
thereof amortization of goodwill	*0*	*0*	*-422*	*-2*	*422*	*-100*
Research and development expenses	-1,612	-8	-1,561	-9	-51	3
Other income	114	1	145	1	-31	-21
Income from operating activities	**1,298**	**6**	**54**	**0**	**1,244**	**2,304**
Financial result	-126	0	17	0	-143	-841
Income taxes	-426	-2	-208	-1	-218	105
Profit (loss) from ordinary activities	**746**	**4**	**-137**	**-1**	**883**	**-645**
Minority interests	-149	-1	13	0	-162	-1,246
Net income (loss)	**597**	**3**	**-124**	**-1**	**721**	**-581**
Earnings per share	€		€		€	
Basic	0.75		-0.15		0.90	
Diluted	0.74		-0.15		0.89	

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

	July 1 - September 30, 2004		July 1 - September 30, 2003		Deviation	
	M €	%	M €	%	M €	%
Revenues	6,892	100	5,476	100	1,416	26
Cost of sales	-5,375	-78	-4,527	-83	-848	19
Gross margin	**1,517**	**22**	**949**	**17**	**568**	**60**
Selling, administrative & other expenses	-568	-8	-614	-11	46	-7
thereof amortization of goodwill	*0*	*0*	*-141*	*-3*	*141*	*-100*
Research and development expenses	-499	-7	-485	-9	-14	3
Other income	25	0	66	1	-41	-62
Income (expenses) from operating activities	**475**	**7**	**-84**	**-2**	**559**	**-665**
Financial result	-121	-2	71	1	-192	-270
Income taxes	-91	-1	-57	0	-34	60
Profit (loss) from ordinary activities	**263**	**4**	**-70**	**-1**	**333**	**-476**
Minority interests	-53	-1	12	0	-65	-542
Net income (loss)	**210**	**3**	**-58**	**-1**	**268**	**-462**
Earnings per share	€		€		€	
Basic and diluted	0.26		-0.07		0.33	

Unaudited Condensed Consolidated Balance Sheets

	September 30, 2004		December 31, 2003		Deviation	
	M €	%	M €	%	M €	%
Fixed assets						
Intangible assets	9,821	18	9,694	17	127	1
Property, Plant and Equipment	11,883	22	11,448	21	435	4
Financial Assets	4,101	8	4,129	8	-28	-1
Non-fixed assets	25,805	48	25,271	46	534	2
Inventories	3,409	6	3,279	6	130	4
Trade receivables	3,703	7	4,001	7	-298	-7
Other receivables and other assets	8,755	16	10,280	19	-1,525	-15
Securities	175	1	468	1	-293	-63
Cash and cash equivalents	7,756	15	7,404	14	352	5
	23,798	45	25,432	47	-1,634	-6
Deferred taxes	2,673	5	2,724	5	-51	-2
Prepaid expenses	993	2	951	2	42	4
Total assets	**53,269**	**100**	**54,378**	**100**	**-1,109**	**-2**
Shareholders' equity						
Capital Stock	807	2	813	1	-6	-1
Reserves	9,782	18	9,589	18	193	2
Accumulated other comprehensive income	5,011	9	5,934	10	-923	-16
Treasury shares	-95	0	-187	0	92	-49
	15,505	29	16,149	29	-644	-4
Minority interests	2,054	4	2,179	4	-125	-6
Provisions	8,706	16	8,726	16	-20	0
Liabilities						
Financial liabilities	5,118	10	4,767	9	351	7
Trade liabilities	5,117	10	5,117	9	0	0
Other liabilities	11,558	21	11,318	21	240	2
	21,793	41	21,202	39	591	3
Deferred taxes	3,191	6	3,664	7	-473	-13
Deferred income	2,020	4	2,458	5	-438	-18
Total liabilities and shareholders' equity	**53,269**	**100**	**54,378**	**100**	**-1,109**	**-2**

Unaudited Condensed Consolidated Cash Flow Statements

	January 1 - September 30, 2004	January 1 - September 30, 2003
	M €	M €
Net income (loss)	597	-124
Income (loss) applicable to minority interest	149	-13
Adjustments to reconcile net income (loss) to cash provided by operating activities		
Depreciation and amortization of fixed assets	1,255	1,675
Valuation adjustments and CTA release	-335	102
Deferred tax expenses (income)	285	-3
Results on disposals of fixed assets / businesses and results of associates (equity method)	-48	-176
Change in provisions	-174	-362
Change in other operating assets and liabilities	249	183
Cash provided by operating activities	**1,978**	**1,282**
Purchases of intangible and fixed assets	-1,652	-1,328
Proceeds from disposals of intangible and fixed assets	57	75
Acquisitions of subsidiaries (net of cash)	-10	-34
Proceeds from disposals of subsidiaries (net of cash)	0	12
Payments for investments in other financial assets	-493	-479
Proceeds from disposals of other financial assets	532	202
Dividends paid by companies valued at equity	36	38
Increase in equipment of leased assets	-295	-327
Proceeds from disposals of leased assets	35	16
Increase in finance lease receivables	-111	-235
Decrease in finance lease receivables	69	57
Change in securities	299	288
Change in cash from changes in consolidation	0	-158
Cash used for investing activities	**-1,533**	**-1,873**
Change in financial liabilities	283	1,284
Cash distribution paid to shareholders	-320	-240
Dividends paid to minorities	-65	-30
Capital increase	2	0
Cash (used for) provided by financing activities	**-100**	**1,014**
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents	7	-36
Net increase in cash and cash equivalents	**352**	**387**
Cash and cash equivalents at beginning of period	**7,404**	**5,400**
Cash and cash equivalents at end of period	**7,756**	**5,787**

During the first nine months of 2004, cash flow from changes in securities included in investing activities increased due to comprised sales of securities by 299 M € (first nine months of 2003: sales of securities for 288 M €). These medium-term securities are included in Securities as stated in the balance sheet.

As of September 30, 2004, 480 M € (December 31, 2003: 613 M €) are included in Cash and cash equivalents, which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAe

Systems and Finmeccanica. Additionally, Cash and cash equivalents include 507 M € (December 31, 2003: 273 M €) representing the amount Airbus has deposited at BAe Systems. These funds are available upon demand.

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

	M €
Equity as of January 1, 2004	**16,149**
Capital increase	2
Net income	597
Cash Distribution	-320
OCI	-923
Equity as of September 30, 2004	**15,505**
Equity as of January 1, 2003	**12,765**
Net loss	-124
Cash Distribution	-240
OCI	2,135
Equity as of September 30, 2003	**14,536**

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

1. The Company

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

2. Accounting policies

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

End of March 2004, the IASB completed Phase I of its ongoing Business Combinations Project and published new IFRS 3 Business Combinations as well as revised Standards IAS 36 Impairment of Assets and IAS 38 Intangible Assets. All three Standards are applicable to any business combination with an agreement date after March 31, 2004. However, EADS decided to anticipate adoption of IFRS 3 and revised IAS 36 and IAS 38 and to apply these standards as of January 1, 2004. Consequently, from 2004 goodwill is no longer being amortized but tested for impairment at least annually. Same rule applies to intangible assets with an indefinite useful life. In the first nine months of 2003, EADS recognised goodwill amortization amounting to 422 M €.

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

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

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

Income tax expense is recognized based on the best estimate of the weighted-average annual income tax rate expected for the full year applied on pre-tax income. The estimated annual average income tax rate for 2004 is about 36 % (projected rate for 2003 as at September 30, 2003: 42 %).

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

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

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

4. Segment information

The Group operates in 5 divisions (segments) which reflect the internal organizational and management structure according to the nature of the products and services provided:

- *Airbus* — Development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats and the development and manufacturing of aircraft for military use.
- *Military Transport* — Development, manufacturing, marketing and sale of military transport aircraft and special mission aircraft.
- *Aeronautics* — Development, manufacturing, marketing and sale of civil and military helicopters, regional turboprop aircraft and light commercial aircraft; and civil and military aircraft conversion and maintenance services.
- *Defence & Security Systems* — Development, manufacturing, marketing and sale of missiles systems; military combat aircraft; and provision of defence electronics, defence-related telecommunications solutions; and logistics, training, testing, engineering and other related services.
- *Space Systems* — 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 Systems	HQ/ Conso.	**Consoli-dated**
Nine months ended September 30, 2004							
External revenues	14,415	539	2,516	3,204	1,646	-861	**21,459**
Research and development expenses	-1,337	-18	-49	-145	-37	-26	**-1,612**
EBIT pre goodwill amort. and exceptionals (see definition below)	1,382	5	116	-75	-5	77	**1,500**
Nine months ended September 30, 2003							
External revenues	12,051	410	2,452	2,957	1,473	-807	**18,536**
Research and development expenses	-1,308	-15	-50	-149	-39	0	**-1,561**
EBIT pre goodwill amort. and exceptionals (see definition below)	701	-7	112	-18	-184	180	**784**

5. EBIT pre goodwill amortization and exceptionals

EADS uses EBIT pre goodwill amortization and exceptionals as a key indicator to measure the economic performance of the Group and its Segments. The term “exceptionals” refers to income or expenses of a non-recurring nature, such as amortization expenses of fair value adjustments relating to the EADS merger, the Airbus combination and the formation of MBDA, as well as impairment charges.

A reconciliation from Income from operating activities to EBIT pre goodwill amortization and exceptionals is set forth in the following table (in M €):

in M €	January 1- Sep. 30, 2004	January 1- Sep. 30, 2003
Income from operating activities	**1,298**	**54**
Income from investments	57	137
	1,355	191
Goodwill and exceptionals:		
Goodwill amortization and related impairment charges	0	422
Fair value adjustment	145	171
EBIT pre goodwill amortization and exceptionals	**1,500**	**784**

In the context of the Project Airbus Conversion in Euro (PACE) and the relating Advance Pricing Agreement signed in April 2004 with tax authorities (France, UK, Germany and Spain), the Airbus GIE – a US-$ denominated entity - has been merged within Airbus SAS – a Euro denominated entity - with retroactive effect as of January 1, 2004.

As a consequence, operations of former Airbus GIE are from January 1, 2004, considered as “foreign currency operations” and accounted for in accordance with accounting principles consistently adopted by EADS and disclosed in the notes to consolidated financial statements. Before the merger, Airbus GIE operations used to be recorded at the current exchange rate of the period except for those hedged with financial instruments. From January 1, 2004, former Airbus GIE operations are recorded on the basis of historical exchange rates.

As a result, no additional Currency Translation Adjustment (CTA) is generated from former Airbus GIE operations. The portion of outstanding CTA as at December 31, 2003, booked for balance sheet items that relate to future transactions as from January 1, 2004, is gradually released according to realization of such operations, namely aircraft deliveries.

6. Significant profit and loss statement items

EADS Group **revenues** in the first nine months of 2004 reached 21,459 M €, which - compared to the first nine months of 2003 – is an increase of 2,923 M €. All divisions recorded increasing revenues, mostly reflecting on the one hand higher aircraft deliveries of Airbus with a more favourable model mix and on the other hand stronger revenues from defence customers, namely in the Defence & Security Systems, Military Transport and Space Systems divisions.

Research and development expenses of 1,612 M € (first nine months of 2003: 1,561 M €) showed a slight increase because of the Airbus A 380 project continuation. The application of accounting policy with respect to capitalization of development costs impacted the R&D costs recognized as expenses through a capitalization of 93 M €.

EADS applied IFRS 3 "business combinations" as of January 1, 2004: Goodwill is no longer regularly amortized, as previously requested under IAS 22, but instead is subject to annual impairment tests. In the first nine months of 2004, there was no Goodwill impairment. In the first nine months of 2003, **Goodwill amortization** reached 422 M €, which represented regular periodic amortization.

The **financial result** includes net interest charge of -181 M € (first nine months of 2003: -138 M €), mainly comprising interest on financial liabilities and European Government refundable advances, partly compensated by the income generated by cash and cash equivalents, securities and financial assets such as loans and finance leases.

Income from investments of 57 M € (first nine months of 2003: 137 M €) was mainly influenced by the result of Dassault Aviation of 51 M € (first nine months of 2003: 137 M €). The decrease is mainly due to negative IFRS-catch up restatements related to the year 2003 accounted for in 2004, whereas in 2003 there were positive IFRS-catch up restatements related to the year 2002.

7. Significant balance sheet items

Intangible assets of 9,821 M € (prior year: 9,694 M €) include 9,373 M € (prior year: 9,372 M €) of Goodwill. EADS applied IFRS 3 "business combinations" as of January 1, 2004: Goodwill is no longer regularly amortized, as previously requested under IAS 22, but instead is subject to annual impairment tests.

Property, plant and equipment increased by 435 M € to 11,883 M € (prior year: 11,448 M €). Most of the increase is made by Airbus, due to strong capital expenditures related to the A380 project and Space division, mainly caused by the Paradigm / Skynet 5 program.

Financial Assets of 4,101 M € (prior year: 4,129 M €) consisted of 1,639 M € (prior year: 1,667 M €) of aircraft financing activities of Airbus and an equity-value of Dassault Aviation of 1,677 M € (prior year: 1,633 M €).

Inventories of 3,409 M € (prior year: 3,279 M €), net of customer advances, increased without foreign exchange-rate effect of 42 M € by 88 M €. The increase in unfinished goods of 1,715 M € (mainly Airbus, Defence & Security Systems and Aeronautics divisions) is partly compensated by lower finished goods of -634 M €, coming mainly from Airbus, and higher advance payments received mainly in Defence and Aeronautics (in total -1,032 M €).

The decrease in **trade receivables** by -298 M € to 3,703 M € (prior year: 4,001 M €) is mainly due to high customer payments in Defence & Security Systems and Aeronautics divisions.

Other receivables and other assets decreased by -1,525 M € to 8,755 M € (prior year: 10,280 M €). The decrease is mainly caused by the reduction of the fair values of financial instruments of -1,304 M € to 6,660 M €, mainly as a result of the development of the US dollar exchange rate (USD / € spot rate of 1.24 at September 30, 2004 vs. 1.26 at December 31, 2003) and matured hedges.

Cash and cash equivalents increased from 7,404 M € to 7,756 M €. This is thanks to strong cash flows provided by operations which more than offset cash used for investing activities and cash used for a cash distribution to shareholders of -320 M € and a dividend payment to minority interests of -65 M €.

Stockholders‘ equity amounts to 15,505 M € (prior year: 16,149 M €), resulting from a Net income of 597 M €, a cash distribution to shareholders of -320 M € and a decrease of -923 M € of OCI.

Minority interests of 2,054 M € (prior year: 2,179 M €) mainly represent shares of BAe Systems in Airbus Group. The decrease in BAe Systems' minority interest is mainly attributable to change in fair values of financial instruments that qualify for hedge accounting according to IAS 39 as well as the dividend paid by Airbus.

Provisions include 3,908 M € for retirement plans and similar obligations (prior year: 3,772 M €), 237 M € of provisions for financial instruments (prior year: 100 M €) and 4,561 M € of other provisions (prior year: 4,854 M €).

Financial liabilities of 5,118 M € (prior year: 4,767 M €), excluding foreign exchange-rate effects of 62 M €, increased by the borrowing of a European Investment Bank loan and Skynet 5 activities, partly offset by repayments of Airbus.

Without considering foreign exchange-rate effects of 48 M €, **other liabilities** increased by 192 M € to 11,558 M € (prior year: 11,318 M €). Other liabilities mainly include 5,118 M € (prior year: 4,851 M €) of European Government refundable advances and 4,225 M € (prior year: 3,807 M €) of customer advance payments.

The decrease in **deferred tax liabilities** of -473 M € to 3,191 M € (prior year: 3,664 M €) is significantly influenced by the decrease in the fair value of financial instruments accounted for as other assets.

8. Significant cash flow items

Cash provided by operating activities increased by 696 M € to 1,978 M € (first nine months of 2003: 1,282 M €). This increase reflects the significant improvement in profits. Moreover, last year's cash flow included negative effects from old “macro-hedges” that bore unfavourable rates.

Cash used for investing activities decreased by 340 M € to -1,533 M € (first nine months of 2003: -1,873 M €). These outflows were mainly caused by investments in fixed assets of -1,652 M € (first nine months 2003: -1,328 M €), thereof -243 M € in Skynet 5 within Space division and investments of -1,063 M € in Airbus division, mainly for A 380. Such outflows were partly offset by the sale of securities in the first nine months of 2004 by 299 M € (first nine months of 2003: 288 M €). Overall, cash used for investing activities was lower in 9 months 2004 than in the same period of 2003 due to the lower use of customer financing.

Cash used for financing activities amounts to -100 M € (first nine months of 2003: 1,014 M € provided by financing activities) and was mainly affected by a cash distribution payment to shareholders of -320 M € and a dividend payment to minorities (-65 M €), partly offset by an increase in financial liabilities of 283 M €.

9. Contingencies

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

10. Number of shares

The total number of shares outstanding is 801,072,938 and 800,957,248 as of September 30, 2004 and 2003, respectively. EADS' shares are exclusively ordinary shares with a par value of 1.00 €. No shares were repurchased neither in the first nine months of 2004 nor in the first nine months of 2003. 5,686,682 of these treasury shares, repurchased and held by the Group, were de-registered and cancelled in July 2004.

11. Earnings per share

Basic earnings per share are calculated by dividing net income (loss) attributable to shareholders by the weighted average number of issued ordinary shares during the period, excluding ordinary shares purchased by the Group and held as treasury shares:

	January 1 to September 30, 2004	January 1 to September 30, 2003
Net income (loss) attributable to shareholders	597 M €	-124 M €
Weighted average number of ordinary shares outstanding	800,961,781	800,957,248
Basic earnings per share	0.75 €	-0.15 €

For the calculation of the **diluted earnings per share**, the weighted average number of ordinary shares is adjusted to assume conversion of all potential ordinary shares. The Group's only category of dilutive potential ordinary shares is stock options. Since the exercise price of the stock options under the 4th and 5th stock option plans initiated by the Group is below the average share price of EADS shares, the inclusion of these potential ordinary shares has a dilutive effect on the weighted average number of shares. According to IAS 33, 2,777,413 stock options would be dilutive:

	January 1 to September 30, 2004	January 1 to September 30, 2003
Net income (loss) attributable to shareholders	597 M €	-124 M €
Weighted average number of ordinary shares outstanding (diluted)	803,739,194	800,957,248
Diluted earnings per share	0.74 €	-0.15 €

12. Dividend policy

Following the annual shareholders' meeting held on May 6, 2004, a cash distribution of 0.40 € per ordinary share was paid in June 2004 for the business year 2003.

13. Related party transactions

The Group has entered into various transactions with related companies in 2004 and 2003 that have all been carried out in the normal course of business. As is the Group's policy, all related party transactions have to be carried out at arm's length. Transactions with related parties include the French State, DaimlerChrysler, Lagardère, and SEPI (Spanish State). Except for the transactions with the French State, such transactions are not considered material to the Group either individually or in the aggregate. The transactions with the French State include mainly sales from the Aeronautics, Defence & Security Systems and Space divisions.

14. Number of employees

The number of employees at September 30, 2004 is 109,765 as compared to 109,135 at December 31, 2003.