

Year 2003 Report

Unaudited Condensed Consolidated Financial Information of EADS N.V. for the year 2003

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Unaudited Condensed Consolidated Income Statements

	January 1 - December 31, 2003		January 1 - December 31, 2002		Deviation	
	M €	%	M €	%	M €	%
Revenues	30.133	100	29.901	100	232	1
Cost of sales	-24.594	-82	-24.465	-82	-129	1
Gross margin	5.539	18	5.436	18	103	2
Selling, administrative & other expenses	-2.985	-10	-3.428	-11	443	-13
<i>thereof amortization of goodwill and related impairment losses</i>	-567	-2	-936	-3	369	-39
Research and development expenses	-2.189	-7	-2.096	-7	-93	4
Other income	196	1	248	1	-52	-21
Income from operating activities	561	2	160	1	401	251
Financial result	131	0	27	0	104	385
Income taxes	-474	-1	-453	-2	-21	5
Profit (loss) from ordinary activities	218	1	-266	-1	484	-182
Minority interests	-66	0	-33	0	-33	100
Net income (loss)	152	1	-299	-1	451	-151
	€		€		€	
Earnings per share Basic and diluted	0,19		-0,37		0,56	

Unaudited Condensed Consolidated Balance Sheets

	December 31, 2003		December 31, 2002		Deviation	
	M €	%	M €	%	M €	%
Fixed assets						
Intangible assets	9.694	17	9.789	21	-95	-1
Property, Plant and Equipment	11.448	21	10.509	23	939	9
Financial Assets 1)	4.129	8	3.729	8	400	11
	25.271	46	24.027	52	1.244	5
Non-fixed assets						
Inventories	3.279	6	2.700	6	579	21
Trade receivables	4.001	7	4.114	9	-113	-3
Other receivables and other assets	10.280	19	5.256	11	5.024	96
Securities 2)	468	1	799	2	-331	-41
Cash and cash equivalents	7.404	14	5.401	12	2.003	37
	25.432	47	18.270	40	7.162	39
Deferred taxes	2.724	5	2.992	6	-268	-9
Prepaid expenses	951	2	965	2	-14	-1
Total assets	54.378	100	46.254	100	8.124	18
Shareholders' equity						
Capital Stock	813	1	811	2	2	0
Reserves	9.589	18	9.658	21	-69	-1
Accumulated other comprehensive income	5.934	10	2.452	5	3.482	142
Treasury shares	-187	0	-156	0	-31	20
	16.149	29	12.765	28	3.384	27
Minority interests	2.179	4	1.361	3	818	60
Provisions	8.726	16	8.248	18	478	6
Liabilities						
Financial liabilities 1)	4.767	9	3.830	8	937	24
Trade liabilities	5.117	9	5.070	11	47	1
Other liabilities	11.318	21	10.246	22	1.072	10
	21.202	39	19.146	41	2.056	11
Deferred taxes	3.664	7	2.014	4	1.650	82
Deferred income	2.458	5	2.720	6	-262	-10
Total liabilities and shareholders' equity	54.378	100	46.254	100	8.124	18

- 1) Offsetting of finance lease liabilities with corresponding deposits (in 2003: -1.131 M €, in 2002: -1.146 M €)
- 2) Short term securities are reclassified into cash and cash equivalent (in 2003: -5.555 M €, in 2002: -3.698 M €)

Unaudited Condensed Consolidated Cash Flow Statements

	January 1 - December 31, 2003	January 1 - December 31, 2002
	M €	M €
Net income (loss)	152	-299
Income applicable to minority interest	66	33
<i>Adjustments to reconcile net income(loss) to cash provided by operating activities</i>		
Depreciation and amortization of fixed assets	2.375	2.768
Valuation adjustments	263	177
Deferred tax (income) expenses	-138	255
Results on disposals of fixed assets/businesses and results of associates (equity method)	-274	-227
Change in provisions	246	-845
Change in other operating assets and liabilities	2.019	804
Cash provided by operating activities	4.709	2.666
<i>Investments:</i>		
- Purchases in fixed assets	-2.672	-2.213
- Increase in equipment of leased assets	-279	-101
- Payments for investments in financial assets and acquisitions of subsidiaries	-820	-1.134
- Proceeds from disposal of fixed assets and decrease in equipment of leased assets	55	240
- Proceeds from disposal of financial assets and subsidiaries	416	849
- Change in finance lease receivables	-359	-599
Change in securities	336	-264
Change in cash from changes in consolidation	-152	5
Cash used for investing activities	-3.475	-3.217
Change in financial liabilities	1.132	-774
Cash distribution paid to shareholders	-240	-403
Dividends paid to minorities	-38	-127
Capital increase	21	16
Purchase of treasury shares	-31	-156
Others	8	-3
Cash provided by (used for) financing activities	852	-1.447
Effect of foreign exchange rate changes on cash and cash equivalents	-83	-82
Net increase (decrease) in cash and cash equivalents	2.003	-2.080
Cash and cash equivalents at beginning of period	5.401	7.481
Cash and cash equivalents at end of period	7.404	5.401

In 2003, cash flow from changes in securities included in investing activities decreased due to sales by 336 M € (2002: increase of -264 M €). These medium-term securities are included in Securities as stated in the balance sheet.

As of December 31, 2003, EADS' cash position (stated as cash and cash equivalents in the unaudited condensed consolidated cash flow statements) includes 273 M € (227 M € as of December 31, 2002) representing the amount Airbus division has deposited at BAe Systems. Additionally included are 613 M € and 596 M € as of December 31, 2003 and 2002, respectively, 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 Consolidated Statements of Changes in Shareholders' Equity

	M €
Equity as of January 1, 2003	12.765
Capital increase ESOP	21
Net income	152
Cash distribution to shareholders	-240
Purchase of treasury shares	-31
OCI	3.482
Equity as of December 31, 2003	16.149
Equity as of January 1, 2002	9.877
Capital increase ESOP	16
Net loss	-299
Cash distribution to shareholders	-403
Purchase of treasury shares	-156
OCI	3.730
Equity as of December 31, 2002	12.765

Explanations to the Unaudited Condensed Consolidated Financial Information (according to IFRS) as at December 31, 2003

1. The Company

The accompanying Condensed Consolidated Financial Statements 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

To be in full compliance with IFRS, EADS changed its accounting policy regarding IAS 38, in particular capitalisation of development costs as internally generated intangible assets. As of December 31, 2003, development costs that had, as a policy, previously been expensed in the period incurred, have been retrospectively assessed for capitalisation unless the amount of any resulting adjustments that relates to prior periods has not been reasonably determinable. EADS considers that due to the complexity of its products, processes carried out in the various research and development phases are of such interaction that a proper distinction of the research phase from the development phase can not be made up to only a very late stage of the program. As a consequence, EADS capitalised 4 M € incurred in 2003 as internally generated intangible asset. Previous financial statements have not been impacted.

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

EADS acquired BAe Systems' 25 percent interest (27,5 percent economic share) in Astrium N.V. The transaction was signed on January 30, 2003 and is accounted for under the purchase method. Control of Astrium N.V., has been transferred to EADS at this date.

At completion of this transaction, EADS acquired BAe Systems' share in Astrium N.V. for 84 M €. Prior to completion, EADS and BAe Systems each made a capital contribution into Astrium N.V. of 84 M € (total 168 M €). Taking the cash contribution into account, BAe Systems' interest has been effectively transferred to EADS for no net cash contribution.

Nortel Networks and EADS reorganized their joint telecommunications activities in France and Germany. On September 18, 2003, EADS exchanged its 42 percent ownership interest in Nortel Networks Germany GmbH & Co. KG and its 45 percent ownership interest in Nortel Networks France S.A.S. for a 41 percent interest in EADS Telecom France S.A.S., a net additional payment of 42 M € by Nortel Networks and a waiver of Nortel Networks for financial receivables of 72 M €. At completion of transaction, EADS holds 100 % of the shares of EADS Telecom France S.A.S.

On October 21, 2003, a Dornier family member being shareholder of Dornier GmbH exercised a put option and offered 17,7 % of the shares in Dornier GmbH to DaimlerChrysler. DaimlerChrysler exercised the right to sell its shares to DADC Luft- und Raumfahrt Beteiligungs AG (DADC), a subsidiary of EADS, in the amount of 62 M €. As a result, EADS holds indirectly through DADC 94 % of the shares of Dornier GmbH (2002: 76 %).

On December 31, 2003, EADS obtained control of ASL Aircraft Services Lemwerder GmbH. The acquisition costs for the company amount to 15 M €.

Apart from these transactions, there were no material acquisitions or disposals of subsidiaries, business combinations, long-term investments and discontinued operations during the year 2003.

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* — 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."

Due to the new organizational structure of the Group, the Defence & Security Systems division has been renamed and restructured, especially the Military Aircraft business unit has been transferred from Aeronautics division to Defence & Security Systems division. Prior year figures are adjusted accordingly in these notes.

in M €	Airbus	Military Transport	Aero-nautics	Defence & Security Systems	Space	HQ/ Conso.	Consolidated
Year ended December 31, 2003							
External revenues	19.048	934	3.803	5.165	2.424	-1.241	30.133
Research and development expenses	1.819	23	62	223	62	0	2.189
EBIT pre goodwill amort. and exceptionals (see definition below)	1.353	30	217	171	-400	172	1.543
Year ended December 31, 2002							
External revenues	19.512	524	3.834	4.770	2.216	-955	29.901
Research and development expenses	1.682	40	90	227	59	-2	2.096
EBIT pre goodwill amort. and exceptionals (see definition below)	1.361	-80	180	122	-268	111	1.426

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- Dec. 31, 2003	January 1- Dec. 31, 2002
Income from operating activities	561	160
Income from investments	186	87
	747	247
Goodwill and exceptionals:		
Goodwill amortisation and related impairment charges	567	936
Fair value adjustment	229	243
EBIT pre goodwill amortization and exceptionals	1.543	1.426

6. Significant profit and loss statement items

EADS Group **revenues** reached 30.133 M €, which is compared with 2002 an increase of 232 M € mainly contributed from Military Transport, Defence & Security systems and Space divisions. Revenues in Airbus division slightly decreased by 2 % to 19.048 M €, but would have been significantly higher at constant US-Dollar rates.

Research and development expenses of 2.189 M € (2002: 2.096 M €) increased mainly because of the Airbus A 380 project. The change in accounting policy with respect to capitalization of development costs did not significantly impact the R&D costs recognized as expenses .

Other income of 196 M € (2002: 248 M €) decreased, as it comprised last year the gain on the disposal of the 50 % shares in Aircelle by Airbus (63 M €).

As there was no impairment charge recognized in 2003, **Goodwill amortization** of 567 M € (2002: 936 M €) comprised regular periodic amortization. Previous year's amortization included additional impairment charges of 350 M €.

The **financial result** comprises interest income of 502 M € (2002: 526 M €) and interest expense of -705 M € (2002: -607 M €). Included in interest income is the return on cash and cash equivalents, securities and financial assets such as loans and finance leases. Interest expenses comprise interest on financial liabilities and European Government refundable advances.

Income from investments of 186 M € (2002: 87 M €) was mainly influenced by the result of Dassault Aviation of 225 M € (2002: 111 M €). Since for the second half year of 2003 no financial information according to IFRS is available yet from Dassault Aviation, the net income of the second half year 2002 of Dassault Aviation has been used as the best estimate to report the current second half year's net income 2003. The current year's equity investment income from Dassault Aviation also includes a catch-up of the prior year financial performance in accordance with IFRS, which amounts to 77 M €.

Other financial result of 148 M € (2002: 21 M €) includes, among others, fair value gains on embedded derivatives not used in hedging relationships.

7. Significant balance sheet items

Intangible assets include 9.372 M € (prior year: 9.586 M €) of Goodwill, which is decreased according to the amortization plan. The reduction of Goodwill is partly compensated by an increase, mainly coming from the purchase of additional shares of EADS Telecom France S.A.S, 100 % consolidation of Astrium N.V., the acquisition of Dornier GmbH shares and ASL Lemwerder.

Eliminating to foreign exchange-rate effects of -281 M €, **Property, plant and equipment** increased by 1.220 M € to 11.448 M € (prior year: 10.509 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 Skynet program.

Financial Assets of 4.129 M € (prior year: 3.729 M €) increased in total – excluding foreign exchange-rate effect of -346 M € – by 746 M €, coming mainly from new customer aircraft financing and change in equity-value of Dassault Aviation. Defeased bank deposits (-1.131 M € in 2003 and -1.146 M € in 2002) were offset with corresponding finance lease liabilities.

Inventories of 3.279 M € (prior year: 2.700 M €), net of customer advances, excluding foreign exchange-rate effects of 658 M €, decreased by -79 M € due to a higher level of customer advances received.

Other receivables and other assets increased by 5.024 M € to 10.280 M € (prior year 5.256 M €). The increase is mainly caused by the development of the fair values of financial instruments (+5.145 M €), as a result of the declining US dollar exchange rate (USD / € year-end spot rate of 1.26 at December 31, 2003 vs. 1.05 at December 31, 2002).

Securities, Cash and cash equivalents increased from 6.200 M € to 7.872 M €.

Stockholders' equity amounts to 16.149 M € (prior year: 12.765 M €), resulting mainly from a Net income of 152 M €, a dividend payment to shareholders of - 240 M €, revaluation of hedges according to IAS 39 by 2.524 M € and a currency translation adjustment of 804 M €.

Minority interests of 2.179 M € (2002: 1.361 M €) mainly represent shares of BAe Systems in Airbus Group. The increase in BAe Systems' minority interest mainly is attributable to change in fair values of financial instruments that qualify for hedge accounting according to IAS 39 in Airbus.

The increase within the **provision for pensions** by 380 M € to 3.772 M € (2002: 3.392 M €) results by 68 M € from 100 % consolidation of Astrium and by 74 M € from transfer of Astrium UK pension plans from BAe Systems to EADS.

Other provisions of 4.954 M € (2002: 4.856 M €) are affected by a foreign exchange-rate effect of -315 M €. Without currency effects, other provisions increase by 413 M €, mainly due to the increase in restructuring and tax provisions

Financial liabilities of 4.767 M € (prior year: 3.830 M €) have mainly increased due to the issuance of a Eurobond loan of 1.500 M €. Formerly included finance lease liabilities are offset with corresponding defeased bank deposits in an amount of 1.131 M € (2002: 1.146 M €)

Without considering foreign exchange-rate effects of -520 M €, **other liabilities** increased by 1.592 M € to 11.318 M € (prior year: 10.246 M €). The increase is mainly impacted by refundable government advances and advances received from customers.

The increase in **deferred tax liabilities** of 1.650 M € to 3.664 M € (2002: 2.014 M €) is significantly influenced by the increase of the fair value of financial instruments recognized in other assets.

8. Significant cash flow items

Cash provided by operating activities increased by 2.043 M € to 4.709 M € (2002: 2.666 M €). This increase is mostly due to the higher level of customer advance payments received during the year and also to the lower impact from the consumption of provision for old "macro-hedges" that bear unfavourable rates.

Cash used for investing activities remains almost stable at -3.475 M € (2002: -3.217 M €). The outflow is mainly caused by investments in fixed assets of -2.672 M €, thereof -1.176 M € for the A 380 program within Airbus division. Further outflows are based on new aircraft loans and cash invested for aircraft under finance leases. These outflows were partly offset by the sale of securities in 2003 by 336 M €.

Cash provided by financing activities amounts to 852 M € (2002: -1.447 M €) and mainly contains new Eurobond loans of 1.500 M € issued in 2003. It is reduced by the cash distribution paid to shareholders of - 240 M € as well as a dividend paid to minorities (mainly BAe Systems) of - 38 M €.

9. Number of shares

The total number of shares outstanding is 800.957.248 and 800.957.248 as of December 31, 2003 and 2002, respectively. EADS' shares are exclusively ordinary shares with a par value of 1,00 €.

During the year 2002, EADS repurchased 10.241.252 ordinary shares in conjunction with the share-buyback program as approved by the General shareholders' meeting on May 10, 2001. The General shareholders' meeting on May 6, 2003 renewed the authorization given to the Board of Directors to repurchase shares of EADS. In 2003, the Company repurchased 1.686.682 shares.

10. 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 December 31, 2003	January 1 to December 31, 2002
Net income (loss) attributable to shareholders	152 M €	(299) M €
Weighted average number of ordinary shares outstanding	800.957.248	804.116.877
Basic earnings per share	0,19 €	(0,37) €

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 all existing stock option plans initiated by the Group is exceeding the average share price of EADS shares, to include these potential ordinary shares would be anti-dilutive. As a consequence, net income as well as the weighted number of ordinary shares in issue are the same for both basic and diluted earnings per share.

11. Related party transactions

The Group has entered into various transactions with related companies in 2003 and 2002 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.

12. Number of employees

The number of employees at December 31, 2003 is 109.135 as compared to 103.967 at December 31, 2002 reflecting 100% consolidation of Astrium (previous year 75 %) as well as new employments at Airbus mainly in relation with the A380 program ramp up.