Documentation for the Annual General Meeting

on Thursday, May 6, 2004 at 10:30 a.m.

at Sheraton Amsterdam Airport Hotel
Schiphol Boulevard 101,
1118 BG Schiphol Airport, The Netherlands

Shareholders Information
(free call)

France: 0 800 01 2001
Germany: 00 800 00 02 2002
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EADS

Agenda

1. Report of the Board of Directors including the:

(i) chapter on Corporate Governance,

(ii) policy on dividends,

(iii) proposed remuneration policy including arrangements for the grant of stock options and rights to subscribe for shares for the members of the Board of Directors;

2. Adoption of the audited accounts for the financial year 2003;

3. Approval of the result allocation, distribution and payment date;

4. Release from liability of the members of the Board of Directors;

5. Appointment of the auditors for the financial year 2004;

6. Appointment of Mr. Rüdiger Grube as a member of the Board of Directors;

7. Appointment of Mr. François David as a member of the Board of Directors;

8. Cancellation of shares repurchased by the Company;

9. Renewal of the authorisation for the Board of Directors to repurchase shares of the Company.

On the cover page, wing of the Multi-Role Tanker Transport Aircraft (MRTT)

Text of the resolutions proposed by the Board of Directors

FIRST RESOLUTION

Report of the Board of Directors

RESOLVED THAT the Report of the Board of Directors, as submitted to the Annual General Meeting, including the chapter on Corporate Governance, policy on dividends and proposed remuneration policy including arrangements for the grant of stock options and rights to subscribe for shares for the members of the Board of Directors, be and hereby is accepted and approved.

SECOND RESOLUTION

Adoption of the audited accounts for the financial year 2003

RESOLVED THAT the audited annual accounts for the accounting period from January 1, 2003 to December 31, 2003, as submitted to the Annual General Meeting by the Board of Directors, be and hereby are adopted.

THIRD RESOLUTION

Approval of the result allocation, distribution and payment date

RESOLVED THAT the net profit of € 152 million, as shown in the audited profit and loss statement for the financial year 2003, shall be added to retained earnings and that a payment of a gross amount of € 0.40 per share shall be made to the shareholders from distributable reserves on June 4, 2004.

FOURTH RESOLUTION

Release from liability of the members of the Board of Directors

RESOLVED THAT the members of the Board of Directors be and hereby are granted a release from liability for the performance of their duties during and with respect to the financial year 2003, to the extent that their activity has been reflected in the audited annual accounts for the financial year 2003 or in the Report of the Board of Directors.

FIFTH RESOLUTION

Appointment of the auditors for the financial year 2004

RESOLVED THAT the Company's auditors for the accounting period being the financial year 2004 shall be Ernst & Young Accountants whose registered office is at Drentestraat 20, 1083 HK Amsterdam, The Netherlands, and KPMG Accountants N.V., whose registered office is at Churchillplein 6, 2517 JW The Hague, The Netherlands.

SIXTH RESOLUTION

Appointment of Mr. Rüdiger Grube as a member of the Board of Directors

RESOLVED THAT effective at the end of this Annual General Meeting, Mr. Rüdiger Grube be appointed as a member of the Board of Directors to replace Mr. Eckhard Cordes who resigned from the Board of Directors.

SEVENTH RESOLUTION

Appointment of Mr. François David as a member of the Board of Directors

RESOLVED THAT effective at the end of this Annual General Meeting, Mr. François David be appointed as a member of the Board of Directors to replace Mr. Jean-René Fourtou who resigned from the Board of Directors.

EIGHTH RESOLUTION

Cancellation of shares repurchased by the Company

RESOLVED THAT the shares in the Company held by the Company, up to a maximum of 5,727,515 shares, shall be cancelled and both the Board of Directors and the Chief Executive Officers be and hereby are authorized, with powers of substitution, to implement this resolution in accordance with Dutch law.

NINTH RESOLUTION

Renewal of the authorisation for the Board of Directors to repurchase shares of the Company

RESOLVED THAT the Board of Directors be and hereby is authorized, for a new period of 18 months from the date of this Annual General Meeting, to repurchase shares of the Company, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company will not hold more than 5% of the Company's issued share capital and at a price not less than the nominal value and not more than 110% of the price at which the Company's shares were quoted at close of business on any stock exchange on the trading day before such repurchase. This authorisation supersedes and replaces the authorisation given by the Annual General Meeting of May 6, 2003 in its ninth resolution.

Report of

Ladies and Gentlemen, dear Shareholders,

We have pleasure in convening this Annual General Meeting of the Shareholders (the **"AGM"**) of **European Aeronautic Defence and Space Company EADS N.V.** (hereinafter referred to as **"EADS"** or the **"Company"**). The objective of this meeting is primarily:

- first, to approve the report of the Board of Directors (the **"Board"**) (the **"Board Report"**) on EADS' activities during the 2003 financial year;
- second, to present the financial statements of EADS for the 12 months ended December 31, 2003, submit for your approval the accounts and the cash distribution for this period and appoint the auditors for the financial year 2004; and
- finally, approve the renewal and grant of financial authorisations to the Board.

The **"Documentation for the Annual General Meeting"** contains:

- the agenda for this AGM,
- the proposed resolutions which will be submitted for your approval at the end of this AGM,
- this Board Report,
- the consolidated and statutory financial statements for 2003 and the same information for the years 2001 and 2002 for comparison purposes, and
- the Auditors' Report from Ernst & Young Accountants and KPMG Accountants N.V.

This Board Report gives only an overview of the main facts and issues. For fuller information and detail, the reader should refer to the Reference Document *(Document de Référence)*, the relevant chapters of which are deemed parts of this Board Report, and a copy of which is filed with the Stock Exchange Authorities in the countries in which EADS is incorporated and its shares listed. These documents are also available on the EADS web-site at www.eads.net (financial information).

1. GENERAL OVERVIEW

Since its creation, in July 2000, by combining the businesses previously operated by Aerospatiale Matra, DaimlerChrysler Aerospace AG (**"Dasa"**) and Construcciones Aeronáuticas SA (**"CASA"**), EADS is the recognized leader across most sectors of its operations, consolidating its control in such areas of longstanding collaboration as Airbus, Eurocopter, Eurofighter, Astrium, MBDA and the industrial Ariane system.

With a workforce of 109,135 employees (at year-end 2003) and revenues of € 30.1 billion in 2003, EADS is Europe's premier aerospace and defence company and the second largest aerospace and defence company in the world.

In terms of market share, EADS has become the number one manufacturer of commercial aircraft and civil helicopters, and a leading supplier of space commercial launch vehicles, missiles, military aircraft, satellites, defence electronics and related services. EADS has organized its businesses in five divisions: (i) Airbus, (ii) Military Transport Aircraft, (iii) Aeronautics (helicopters, aircraft maintenance and conversion, light and regional aviation), (iv) Defence and Security Systems and (v) Space.

In 2003, it generated 76% of its revenues in the civil sector and 24 % in the defence sector.

2. MAIN EVENTS OF 2003

The loss of Jean-Luc Lagardère on March 14, 2003, one of EADS' two Chairmen of the Board, a great visionary and one of the founding fathers of EADS came as a great shock to all.

In spite of a difficult environment in 2003, EADS surpassed its announced targets, and has become a driving force in global aerospace and defence by becoming the market leader in commercial aircraft above 100 seats, and by more than doubling its defence order book.

EADS' business environment in 2003 was characterized by the Iraq crisis and the SARS infection which impacted heavily on air traffic, especially in Asia; moreover available budgets for public investment in EADS home markets continued to suffer from strong financial constraints.

Nevertheless, EADS has proved to be a strong, efficient player, and successfully positioned itself for sustained growth and profitability:

- In 2003, for the first time ever, Airbus delivered more aircraft than its competitor and consolidated its order-intake leadership.
- EADS' order book at year-end was worth € 179.3 billion, more than any other peer company's order book and representing almost 6 years of present level revenues in the civil aviation business and close to 7 years in the defence business.
- EADS generated an EBIT* figure of € 1,543 million and reached a much higher cash position than planned.
- EADS' stock price performed very well compared with the sector in general and compared to national indexes (see also "3.2. Stock price evolution 2003" of this Board Report).

In the civil Aviation business, EADS has captured 52% of new aircraft orders, reflecting the quality and performance of its product range.
Airbus achieved significant technical milestones in 2003 in the A380 programme, and now has 129 firm orders from eleven customers for this aircraft. Emirates Airlines, Korean Air, Malaysian Airlines and most recently Qatar Airways ordered a total of 34 A380 aircraft in 2003. The industrial structure and programme management are in place according to plan with final assembly of the A380 starting in 2004. The aircraft will take to the air in 2005 and first deliveries will happen in 2006.

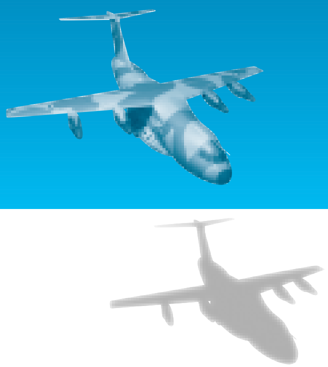
The American low-cost carrier jetBlue Airways rewarded Airbus with a major success by placing an order for 65 Airbus A320, plus options for an additional 50 aircraft.

For Defence businesses, 2003 was characterized by an excellent order intake (€ 31 billion), bringing the overall defence order book up to € 46 billion by the end of 2003. The major contracts contributing to this achievement are the order of 180 A400M military transport aircraft by 7 European nations, the order of the British military communication satellite system Skynet 5, and the sale of the NH90 helicopter to Greece, as well as of Eurofighter to Austria, its first export customer. Additionally, the Tiger helicopter has been selected by the Spanish authorities and the corresponding order will be booked in 2004.
In the field of missile defence, EADS through its subsidiary MBDA (37.5% owned) is participating in a multibillion Euro contract with the European procurement agency OCCAR[1] for series production of the world's first advanced ground-based and naval air defence system with an anti-ballistic missile capability, including series production of Aster 15 and Aster 30 missiles.
An EADS/MBDA system of systems solution was also selected for the first phase of the new British integrated ground based air defence system (GBAD).

Growing EADS capabilities and business revenues in defence is a core strategic priority for the Group. A full integration of operations and offerings within one division will support the achievement of this strategic goal. To this aim, the ongoing reorganization of the Defence & Security Systems division builds upon the strengths of the Company as a global defence systems powerhouse.

Following the acquisition of the 25% stake in Astrium by EADS from BAE Systems, EADS implemented a drastic restructuring of its Space business, aimed at rationalizing and improving its operations and bringing the division to breakeven in 2004, with sustained profitability growth thereafter. Major business successes contributing to the profitability goals were the decision by the member nations of the European Space Agency (ESA) to finance the Galileo Satellite Navigation System, the designation of EADS as prime contractor for the Ariane Spacecraft, and the acquisition of several satellite contracts worth over € 600 million by Astrium.

**EBIT pre-goodwill amortisation and exceptionals - see definition below in paragraph 5.1.2 page 13.*
(1) Organisation Conjointe de Coopération en matière d'Armement (Organization for Joint Armament Cooperation).



Apart from Great Britain, where EADS already confirmed its strong position through several major contracts and where EADS has become the second largest defence supplier, the globalization of its business has further seen EADS conclude a number of partnerships, especially in Asia; moreover a technology center has been opened in Russia; and the construction of a Eurocopter manufacturing plant in the U.S.A. has been launched.

EADS will pursue its policy of driving civil aviation and growth in defence business, while continuing its efficiency plans aimed at enhanced profitability and making careful use of its resources.

3. CHANGE IN THE SHAREHOLDING AND STOCK PRICE EVOLUTION

In 2003, the following changes in the shareholding of the Company and stock price took place and are laid out below.

3.1 Shareholding and voting rights

Issued share capital

As of December 31, 2003, EADS' issued share capital amounted to € 812,885,182 divided into 812,885,182 shares of a nominal value of € 1 each.

Evolution in 2003

On October 10, 2003, the Board approved the following measures in accordance with the authorisations granted by the shareholders' meeting dated May 6, 2003:

- the offering of up to 2,027,996 shares to eligible employees of EADS within the framework of an employee share ownership plan (**"ESOP"**). As a result, on December 5, 2003, 1,686,682 shares were issued;
- the delegation given to the Chief Executive Officers (**"CEOs"**) to set up and implement a share buy-back programme whereby up to 2,027,996 shares could be purchased by the Company in order to compensate the dilution of equity resulting from the ESOP described above. As a result, within the 12-month period until December 5, 2003, 1,686,682 shares were repurchased by the Company;
- the granting of stock options to selected EADS employees for the subscription of 7,563,980 shares in the Company, within the framework of a stock option plan (**"SOP"**).

Shareholding structure

As a result of the above, EADS' issued share capital is currently owned as follows:

- 30.07% (i.e.: 30.52% of the voting rights) indirectly by DaimlerChrysler AG;
- 30.07% (i.e.: 30.52% of the voting rights) by the *Société de Gestion de l'Aéronautique, de la Défense et de l'Espace* (**"SOGEADE"**), a French partnership limited by shares and whose share capital is held 50% by the *Société de Gestion de Participations Aéronautiques* (**"SOGEPA"**) (a French State holding company) and 50% indirectly by Lagardère SCA;
  Thus, 60.14% (i.e.: 61.04% of the voting rights) of the Company's issued share capital is held in equal proportions by DaimlerChrysler AG and SOGEADE, who jointly control EADS through a contractual partnership governed by Dutch law.
- 5.50% (i.e.: 5.58% of the voting rights) by *Sociedad Estatal de Participaciones Industriales* (**"SEPI"**) (a Spanish State holding company), also party to the contractual partnership mentioned above;
- 30.10% (i.e.: 30.54% of the voting rights) by the public (including EADS employees 3.55% (i.e.: 3.60% of the voting rights));
- 2.73% (i.e.: 2.78% of the voting rights) indirectly by DaimlerChrysler AG and 0.06% (i.e.: 0.06% of the voting rights) directly by the French State; and
- 1.47% by the Company itself, and consisting of shares deprived from economic and voting rights, while owned by the Company.

3.2 Stock price evolution 2003

EADS shares performed strongly in 2003, rising by 91% from € 9.85 to € 18.85 and outperforming all major European and American indices as well as the shares' evolution of EADS' competitors.

In the early months, pending the conflict in Iraq, equity markets faced an uncertain environment and focused more on geopolitical issues and macro-economic concerns than on value fundamentals or corporate news. As a result, on March 10, 2003, the share price recorded an all-time low of € 6.50.

Over the weeks to the end of May, the shares recovered in step with European markets, though volatility remained high due to market uncertainty, particularly in the airline and aerospace sectors. Contributing factors were the conflict in Iraq, a weak global economic climate, the weakening of the US dollar against the Euro and the effects of the SARS outbreak.

At the end of May, sentiment of the financial markets on the Group changed. This was partly due to the ending of the war, the containment of the SARS virus and a more favourable EURO/US dollar exchange rate - but also the announcement of major successes by EADS such as the signing of the A400M contract (€ 20 billion) and positive developments (for example, on the Galileo project and the Ariane business system) in the Space division.

In subsequent months, EADS continued to show great successes. There were important commercial wins at Airbus and export successes for the Eurofighter, Tiger and NH90. Increasingly encouraging economic data and company news namely on the first half year results also strengthened confidence in the outlook, despite the increasing strength of the Euro towards the end of the year.

3.3 Policy on dividends

The Board will recommend to the AGM a cash distribution of a gross amount of € 0.40 per share with respect to the year 2003. The amount of the proposed cash distribution results from the Company's performance during the year 2003, and from the examination of payout ratios based on net income before goodwill amortisation for a collection of relevant European companies. This distribution level, at the current civil market juncture, reflects management's confidence in the Company's future earnings as the impact of the cyclical upturn, the growth of defence activities and the introduction of the A380 in airline service depict a vision of sustained growth.

In the future, EADS' dividends and attributions to reserves will be proposed to the shareholders by the Board depending on factors such as EADS' distribution capacity arising from performance, its priorities for cash utilization and confidence in future prospects (payment levels will also take external factors into account, such as the dividend policies of relevant European and international companies). No assurance may be given that dividends will be proposed for the years 2004 onwards.

3.4 Relationship with principal shareholders

In July 2003, in accordance with the agreements governing the relationships between the founders of EADS and entered into at the time of the creation of EADS in July 2000:

- the standstill period during which DaimlerChrysler AG, SOGEADE, SEPI, Lagardère SCA, SOGEPA and the French State were not allowed to sell or purchase, as the case may be, EADS shares, expired enabling them to sell their EADS shares on the market subject to pre-emptive rights;
- the French Financial Institutions (BNP Paribas and Axa) transferred to Lagardère SCA the shares of their wholly owned subsidiary, Istroise de Participations, through which they held their EADS shares, as agreed initially at the creation of EADS; and
- SEPI's right to nominate a member of the Board expired and the SEPI-nominated Director lost his right to block any decision relating to any major change to the CASA Industrial Plan and/or its implementation. However, a Spanish Director remains on the EADS Board.

All the other provisions of the agreements between the principal shareholders of the Company set up at the time of its creation remain in full force and effect.

3.5 Future ESOP and SOP

In the past, EADS' Employee Share Ownership Plans and Stock Option Plans proved to be successful tools to retain and reward EADS employees' development.

3.5.1 Future ESOP

The Company intends to implement an ESOP in 2004 and 2005. The plan's implementation would have to be formally approved by the Board. 2004 plan would have the following main characteristics: offer and issue of up to approximately 2 million shares of the Company, i.e. up to 0.25% of its issued share capital, to certain eligible employees, at a subscription price equal to the lowest price on the Paris Stock Exchange on the date of the decision of the Board, minus 20%, corresponding to average discount conditions of the market. Eligible employees may also invest through a French saving plan at a price equal to the higher of such subscription price and 80% of the average opening prices of the shares over the last 20 sessions of the Paris Stock Exchange preceding the date of the decision of the Board.

3.5.2 Future SOP

The Group is keen to maintain this long term incentive plan. Therefore, as done in the previous years, the Company also intends to implement a SOP in 2004. The plan implementation would again have to be formally approved by the Board. This plan would offer rights to subscribe to up to approximately 8 million shares in the Company, i.e. up to 1% of its issued share capital, given to specific beneficiaries. Vesting criteria for such long term incentive plan will be linked both to mid term business performance and stock price development.

4. CORPORATE GOVERNANCE

In 2003, the Board of EADS continued to uphold the driving principle of maximising shareholder value and conformity with applicable law and Corporate Governance principles in the countries relevant for the Company, while also enhancing its focus on Corporate Governance best practices.

4.1 Management and control

EADS' management structure has proved efficient and well adapted to fulfil its commitment to a sustainable and balanced relationship with stakeholders. The fostering of employee and supplier development as well as customer satisfaction, remained a foundation of EADS' success, operations and culture.

The rules governing the proceedings of the Board, initially adopted by the Board in July 2000 were amended during the Board meeting held on December 5, 2003 to reflect the decision of the Board with respect to the enhancements in Corporate Governance as described below. In addition, EADS' previously existing Insider Trading Rules, which restrict the Board members from trading in shares in the EADS group under certain circumstances, have been re-enforced building on the recent changes in the laws applicable to the Company in The Netherlands and in each country where EADS shares are listed. Those rules have become effective from January 1, 2004.

The Board met eight times in the year 2003 and was regularly informed of developments through business reports from the CEOs, including rolling forecasts as well as strategic and operational plans. Topics discussed and operations authorised at these meetings included EADS strategy, reorganisation processes (such as the continuation of the Space division restructuring and the reorganisation in the field of Defence and Security), major business issues and contracts (such as the A340 HGW[1] authorisation, the Future Strategic Tanker Aircraft (FSTA) offer, the Skynet 5/Paradigm, A400M and NH90 contracts), and the approval of operational plans, budgets, hedging and funding policy, remuneration (including a SOP and an ESOP) and the Group's financial results and forecasts. The Board also dealt with topics regarding personnel and human resources, such as management qualification as well as attracting, retaining and developing high potentials in order to ensure the future quality of EADS' management and the multi-national leadership structure.

As mentioned above, a Board meeting held on December 5, 2003 discussed recommendations for changes to EADS' Corporate Governance in the light of Corporate Governance best practices developed in the jurisdictions relevant to EADS. In particular, the Board adopted recommendations relating to its functioning including the implementation of an evaluation process of its performance, the personal status of its Directors including their individual compensation, Board remuneration policy, and the role of the Board Committees. Enhancements of shareholders' rights were also decided, including, *inter alia*, access to information by the setting-up of specific Corporate Governance pages on EADS' web-site. Accordingly, the Board decided to establish the internal Directors' guidelines, detailing the rights and duties of the members of the Board and the role of the Committees of the Board as set out in the EADS Internal Rules for the Board.

The Audit Committee, set up by the Board in 2000 from among its members, met twice during the year 2003 to review the 2002 results as well as the first half-year results for 2003. As decided by the Board on December 5, 2003, the role of the Audit Committee will be increased with new tasks such as, in particular, the review of the quarterly financial reports and the supervision of the internal risk management and control system as of 2004. In this respect, the Board mandated the formalization and implementation of an improved risk management and internal control system.

(1) HGW: High Gross Weight.

The Remuneration and Nomination Committee, formerly named Personnel Committee, also set up by the Board in 2000 from among its members, met six times during the year 2003 to review the compensation policy (including pension scheme for Executive Committee members), the bonus payments for 2002, and the ESOP and SOP for 2003, and to recommend the appointment of the chief executive officers of the Company's main business units such as EADS Space, as well as Defence & Security Systems divisions' new business units and EADS EFW. Furthermore the Committee made a recommendation to the Board on the name of a new member of the Airbus Executive Committee. Pursuant to the Board decision to amend its internal rules, new tasks were attributed to the Remuneration and Nomination Committee such as making recommendations regarding the appointment of the chairmen of the Supervisory Board (or similar bodies) and the chief executive officers (or equivalent position) of important EADS Group companies and business units, as well as the Company's Corporate Secretary.

At its December 5, 2003 meeting, the Board decided to carry out an annual assessment of its performance as from January 2004. A more thorough assessment of the performance of the Board will be carried out every three years, possibly using external consultants.

This year's self-evaluation was conducted by the Chairmen of the Board, based upon Board members responses to a questionnaire. The Chairmen jointly evaluated the feed-back of the Board members and led a discussion of the results at the March 5, 2004 Board meeting.

The self-evaluation of the Board and its Committees comprises a general assessment of the meetings and processes of the Board, and a review of the activities of the Board and its Committees in the past year. The questionnaire addressed matters such as the frequency of meetings, the content of discussions and the thoroughness of meeting preparation. The Board members were also asked to consider the functioning and the composition of the Board, the quality and openness of discussion, the independence of expressed opinions, the ability to build on differing positions, and the Directors' access to necessary information.

The findings of the first self-assessment concluded that the overall performance of the Board is very satisfactory. Additional facilities for attendance by video-conference will further improve overall attendance.

The self-assessment confirmed that the nominees from the block shareholders held opinions and defended positions which are in all relevant questions aligned with the economic interests of individual shareholders. Given the absence of material business interests between EADS and its controlling shareholders, and the independence of the controlling shareholders from one another, Board members nominated by the controlling shareholders are deemed to fairly represent the interests of all shareholders.

Furthermore, the Board members indicated in the self-assessment that the Board composition with a wide range of different experiences represented in the Board and the running of meetings was conducive to the expression of autonomous and complementary views, and that they had fairly substantial discussions on the strategic and operational tasks for 2004.

Overall, the quality of the work carried out by the Committees was also judged very satisfactory. With its decision during the December 5, 2003 meeting, the Board of Directors empowered the Audit Committee and the Remuneration & Nomination Committee with an increased scope of authority to align with the improved Corporate Governance Standards in the EADS home countries.

4.2 Dutch Corporate Governance Code

In the context of its review of Corporate Governance issues, the Board specifically analyzed the provisions of the new Dutch Corporate Governance Code (the **"Dutch Code"**) published in its final version in December 2003. As EADS is a Dutch Company listed on three different stock markets (Paris, Frankfurt and Spain), the Dutch Code will be applicable to the Company from January 1, 2004, if the legislation proposed by the Dutch Government is enacted later this year.

A review of the provisions completed by the Board in December 2003 shows that the Company already applies, or will apply, many principles and rules recommended by the Dutch Code. However, certain recommendations of the Dutch Code cannot be implemented in the Company, as EADS is a controlled Company. Nevertheless in a controlled Company, the nominees of the controlling shareholders have the same interests as the Company and all other stakeholders and therefore are acting in their best interest.

In accordance with Dutch law and with the provisions of the Dutch Code, the Company will comply with the requirements in respect of reporting on Corporate Governance and explain the reasons for non-compliance.

4.3 Remuneration policy of the members of the Board of Directors

EADS' compensation policy aims at attracting and retaining talents that will contribute to the Group business success. Shareholders expect a strong commitment from EADS Board members, the compensation policy is therefore designed to focus efforts on what the Group wants to value and reward. The compensation of the Executive Board members combines short-term and long-term reward.

For further information in respect of the remuneration of the members of the Board during the year 2003 together with additional information such as numbers of stock options, see "Notes to the Statutory Financial Statements - Note 9: Remuneration".

4.3.1 Compensation of the Board

The respective elements of EADS compensation policy for Non-Executive Directors on the one hand and Executive Directors on the other hand are summarized in the following paragraphs.

4.3.1.1 Compensation of Non-Executive Board members

The Non-Executive Directors are entitled to receive an accumulated total target compensation as a group of Non-Executive Directors on a full year basis of € 900,000. This target compensation includes (i) a fixed part of € 30,000 per director and € 60,000 per chairman, (ii) a fee for participation in Board meetings as well as committee meetings (if such committee meetings take place on a different date than the Board meetings) of € 5,000 per director and € 10,000 per chairman, per meeting and (iii) a variable part consisting of a profit sharing (bonus) calculated according to EBIT results of the EADS group, of € 50,000 per director and € 100,000 per chairman at 100% target achievement.

The profit sharing calculation rules for Non-Executive members are the same as for the Executive members of the Board (see below).

4.3.1.2 Compensation of Executive Board members

The remuneration policy for Executive Board members follows the same principles as the remuneration policy for EADS Executive Committee members.

The Executive Board members are entitled to receive a total target compensation divided into a fixed part and a variable part; total compensation is 50% fixed and 50% variable (in case of overachievement of the targets, the variable part can exceed 50 % of total compensation).

The variable part is calculated on the basis of two equal components:

- Profit sharing (50% of the variable part) to reward business performance at Group level or division level (if applicable). The financial indicator is EBIT* (starting 2004, a cash indicator will be introduced as a complementary component to EBIT*. EBIT* will represent 75% of the profit sharing and cash will represent 25% of the profit sharing).
- Individual bonus (50% of the variable part) to reward individual performance measured against the achievement of individual objectives.

Executive Board members are also eligible to long term incentive reward through the EADS stock option plans (see below). They receive neither Board attendance fees nor any dedicated compensation as members of the Board.

A benchmark study on Board compensation conducted in May 2003 for Non-Executive and Executive Board members basically confirmed that the compensation structure is generally in line with European market practices.

4.3.2 SOP

Executive Board members are eligible for the EADS SOPs, which are a general tool for talent retention and promotion of Company value growth. SOP is designed to reward Group key players (including Executive Board members) who are:

- Executives and,
- Selected high potential individuals.

The population of EADS Executives is granted stock options based on their hierarchical level. Extra grants can also be distributed to reward personal performance and potential. In total about 1,500 key players have been eligible for the SOP in 2003.

If, as planned a SOP is implemented in 2004, the maximum number of stock options to be granted to Executive Board members should be 500,000 in total. In addition, one of the criteria for vesting of stock options for Senior and Corporate Executives, Executive Committee members and Executive Board members will be conditional upon the achievement of the operative mid-term plan.

The Remuneration and Nomination Committee makes recommendations to the Board, who finally decides on the individual grant allocation.

**EBIT pre-goodwill amortisation and exceptionals - see definition below in paragraph 5.1.2 page 13.*

4.3.3 ESOP

EADS Executive Board members are eligible for the ESOP under the same conditions as any of EADS' employees, being people under contract with EADS or with its subsidiaries (more than 50% directly or indirectly held by EADS and companies in which EADS holds more than a 10% stake and where it exercises a material influence on the management). As eligible persons, Executive Board members are entitled to subscribe, during the subscription period, to a maximum of 500 shares per plan each (2,000 in total) with a discount to the market price. Those shares cannot be sold during a period of 1 year in case of a direct ownership or a period of 5 years in case of an ownership through a mutual fund. If, as planned, such a plan is launched in 2004 and 2005, this policy shall be maintained.

4.3.4 Pension benefits

The Executive Board members have pension promises as part of their employment agreements. The general policy is to give them annual pensions of 50% of their annual base salary after five years in the Executive Committee of EADS at the age of 60 to 65. In case of the CEOs, the policy allows retirement starting at age 60. This obligation will increase to 60% after second term, usually after ten years of service in the EADS Executive Committee.

These pension schemes have been implemented and financed through collective executive pension plans in France and Germany. These pension promises have also separate rules for e.g. minimum length of service and other conditions to comply with national regulations.

4.3.5 Policy for termination package

Non-Executive Board members have no termination package.

Executive Board members are entitled to a termination package when the parting results from a decision by the Company. Such package varies according to the type of their contracts:

- Fixed terms contracts (5 years): full pay until end of the contract period plus a maximum of 18 months of target income, or
- Indefinite term contract: a maximum indemnity of 24 months of target income.

4.3.6 Policy for loans and guarantees granted to Directors

General EADS policy is not to grant any loans to its Directors or members of the Executive Committee.

5. FINANCIAL HIGHLIGHTS

EADS prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). To be in full compliance with IFRS, EADS changed its accounting policy regarding IAS 38 "Intangible Assets", in particular capitalization of product related development costs. This change in accounting policy had no material effect on the Financial Statements 2003. Previous Financial Statements were not impacted by this change.

The consolidated financial statements include the subsidiaries under the control of EADS. Investments in which EADS has significant influence ("associated companies") are accounted for using the equity method. For investments in material joint ventures, EADS uses the proportionate method of consolidation. The effects of intercompany transactions are eliminated.

5.1 EADS Consolidated Financial Statements

Table 1 - **Consolidated Income Statements**

(in millions of €)	2003	2002
Revenues	30,133	29,901
Cost of sales	(24,594)	(24,465)
Gross margin	**5,539**	**5,436**
Selling expenses	(776)	(829)
Administrative expenses	(1,386)	(1,422)
Research and development expenses	(2,189)	(2,096)
Other income	196	248
Other expenses	(823)	(1,177)
thereof goodwill amortisation and related impaiment losses	*(567)*	*(936)*
Income from operating activities	**561**	**160**
Financial result (net)	131	27
Income taxes	(474)	(453)
Profit (loss) from ordinary activities	**218**	**(266)**
Minority interests	(66)	(33)
Net income (loss)	**152**	**(299)**

5.1.1 Revenues

In 2003 EADS revenues reached € 30.1 billion, a slight increase by € 0.2 billion compared to € 29.9 billion in 2002 thanks to programmes' ramp-up.

Table 2 - **Revenues by division**

(in millions of €)	2003	2002	Change
Airbus	19,048	19,512	(464)
Military Transport Aircraft	934	524	410
Aeronautics [1]	3,803	3,834	(31)
Space	2,424	2,216	208
Defence & Security Systems [1]	5,165	4,770	395
HQ/Consolidations	(1,241)	(955)	(286)
Total EADS Group	**30,133**	**29,901**	**232**

(1) New structure of Aeronautics and Defence divisions.

Airbus delivered 305 aircraft, slightly above its target of 300, after delivering 303 aircraft in 2002. Revenues slightly decreased by 2% to € 19 billion due to the weaker US dollar against the Euro. With a constant US dollar rate, Airbus revenues would have grown by 5% thanks to a better mix of deliveries.

Revenues at the **Military Transport Aircraft** division increased from € 0.5 billion in 2002 to € 0.9 billion in 2003 (+78%) mainly originating from the A400M programme and military derivatives business growth.

Revenues at the **Aeronautics** division (€ 3.8 billion) remained stable compared to 2002, with particularly good performances at Eurocopter and EFW, being offset by the regional aviation market depression. Previous year figures have been restated to reflect the transfer of the Military Aircraft business unit (including namely Eurofighter) from the Aeronautics division into the Defence and Security Systems division.

Space revenues of € 2.4 billion increased by € 0.2 billion compared to 2002 thanks to the 100% consolidation of Astrium. This was partially offset by lower revenues in Space Transportation (closure of the Ariane 4 programme and slowdown of the Ariane 5 programme).

Defence & Security Systems revenues of € 5.2 billion increased by 8% compared to € 4.8 billion in 2002 driven by the ramp-up of Eurofighter and missile programmes.

5.1.2 EBIT pre-goodwill amortisation and exceptionals (EBIT)*

EADS uses EBIT ("Earnings Before Interest and Taxes") pre-goodwill amortisation 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 amortisation expenses of fair value adjustments relating to the EADS merger, as well as impairment charges.

EBIT pre-goodwill amortisation and exceptionals is treated by management as a key indicator to measure the segments' economic performances.

Table 3 **- Reconciliation Income from operating activities to EBIT***

(in millions of €)	2003	2002
Income from operating activities	**561**	**160**
Goodwill amortisation and related impairment charges	567	936
Exceptional depreciation (fixed assets)	214	227
Exceptional depreciation (inventories)	15	16
Income from investments	186	87
EBIT pre-goodwill amortisation and exceptionals	**1,543**	**1,426**

** Pre-goodwill amortisation and exceptionals.*

Table 4 **- EBIT* by division**

(in millions of €)	2003	2002	Change
Airbus	1,353	1,361	(8)
Military Transport Aircraft	30	(80)	110
Aeronautics (1)	217	180	37
Space	(400)	(268)	(132)
Defence & Security Systems (1)	171	122	49
HQ/Consolidations	172	111	61
Total EADS Group	**1,543**	**1,426**	**117**

** Pre-goodwill amortisation and exceptionals.*

(1) New structure of Aeronautics and Defence divisions.

In 2003 EADS achieved an EBIT* of € 1,543 million, an 8% increase by € 117 million compared to 2002 (€ 1,426 million) and significantly above the target set at about € 1.4 billion.

Airbus division EBIT* reached € 1,353 million, at about the same level as in 2002 (€ 1,361 million). This was achieved mainly thanks to a better aircraft model mix but was offset by the planned € 137 million R&D cost increase to reach a total of € 1,819 million R&D cost.

The **Military Transport Aircraft** division achieved the turnaround reaching € 30 million EBIT* in 2003 in comparison to the negative result of € 80 million in 2002 which had been affected by a customer insolvency.

The **Aeronautics** division accounted a strong performance increase of 21% to reach € 217 million EBIT* in 2003. This was mainly a result of further improvement in profitability at Eurocopter.

Space division's negative EBIT* of € 400 million was worse compared to 2002 (€ - 268 million) due to the restructuring programme and the corresponding charges of € 288 million booked. However, without the restructuring charges and the

**EBIT pre-goodwill amortisation and exceptionals.*

negative impact from the first-time 100% Astrium consolidation, the operational performance of Space improved compared to 2002. Space division's target is to achieve EBIT* breakeven in 2004.

The **Defence & Security Systems** division EBIT* was boosted by 40% to reach € 171 million. Main contributors were the Eurofighter and missile programmes.

The EBIT* contribution from **Headquarters** increased, namely thanks to higher contribution from the Dassault Aviation investment (46.03% interest by EADS) at € 225 million in 2003, compared to € 111 million in 2002. Part of this is due to the one-time catch-up impact (€ 77 million) of the IAS restatement of the 2002 Dassault Aviation contribution.

5.1.3 Consolidated Balance Sheets

Table 5 **- Consolidated Balance Sheets**

	December 31,		
(in millions of €)	**2003**	2002	Change
Fixed assets	25,271	24,027	1,244
Non-fixed assets	25,432	18,270	7,162
Deferred taxes and prepaid expenses	3,675	3,957	(282)
Total assets	**54,378**	**46,254**	**8,124**
Shareholders' equity	16,149	12,765	3,384
Minority interests	2,179	1,361	818
Provisions	8,726	8,248	478
Liabilities	21,202	19,146	2,056
Deferred taxes and deferred income	6,122	4,734	1,388
Total liabilities and equity	**54,378**	**46,254**	**8,124**

5.1.4 Net Cash

As of December 31, 2003, the Net Cash position [defined as the difference between (i) cash, cash equivalents and securities and (ii) financial liabilities (as recorded in the consolidated balance sheet)] of EADS was € 3,105 million, compared to € 2,370 million in 2002 on comparable terms. This improvement was much better than expected and driven by stronger operating cash flows.

From 2003, defeased bank deposits for aircraft financing (included in financial assets) are netted with the corresponding finance lease liabilities in EADS accounts. These set-offs amount to € 1,131 million in 2003 and € 1,146 million in 2002. The 2002 net cash position figure has been restated accordingly.

Overall cash and cash equivalents amounts have increased from € 5,401 million to € 7,404 million.

Cash provided by operating activities (including working capital variation) significantly increased to € 4,709 million (2002: € 2,666 million) thanks to on the one hand, better hedge rates, following the expiry of some old unfavorable hedges; and on the other hand, thanks to the working capital variation which was boosted from € 804 million in 2002 to € 2,019 million in 2003 mainly due to the higher level of customer advance payments.

Cash used for investing activities amounted to € - 3,475 million (2002: € - 3,217 million) including capital expenditure for the A380 programme (about € 1,200 million), initial cash outlay for Paradigm (€ 400 million) and new aircraft financing cash impact (€ 1,093 million). These outlays were partly offset by the favorable change in securities (€ 336 million in 2003, compared to € - 264 million in 2002).

Cash provided by financing activities amounted to € 852 million (2002: € -1,447 million), including Eurobond loans of € 1,500 million and cash distribution to shareholders (€ 240 million in 2003 compared to € 403 million in 2002).

**EBIT pre-goodwill amortisation and exceptionals.*

5.1.5 Order Intake and Order Book

EADS **order intake** reached € 61.2 billion in 2003, an increase of 97% compared to 2002 (€ 31.0 billion) and exceeding 2003 revenues by factor of 2. Defence orders (including all EADS military businesses) reached € 30.8 billion, thus contributing half of EADS order intake.

Airbus' order intake recovered from the slowdown of new orders with 254 commercial aircraft ordered (284 gross orders and 30 cancellations) in 2003, compared to 233 net orders booked (after 67 cancellations) in 2002. Moreover, order intake value was enhanced by the larger size of the aircraft ordered. In 2003 Airbus received 34 new orders for the A380. Airbus' 2003 order intake also includes Airbus work-share on the A400M programme for about € 14 billion.

Military Transport Aircraft division's order intake of € 20.3 billion was driven by the A400M contract (€ 19.7 billion).

Aeronautics division's order intake of € 3.7 billion declined compared to 2002 (€ 4.1 billion) mainly due to the much lower order intake level received by ATR. At Eurocopter, the order intake remained solid thanks to the Greece order for 20 NH90, but was nevertheless slightly lower than the exceptional level that had been achieved in 2002, following orders for 14 NH90 for Norway and 22 Tigers for Australia.

The **Space** division's order intake of € 6.1 billion nearly tripled compared to 2002 (€ 2.1 billion) mainly due to the Skynet 5 order received by Space Services worth € 3.6 billion (£ 2.5 billion), orders for 4 telecom satellites (2 Arabsat, Hotbird 8, and Anik F1) and institutional contracts (Pleiades).

Defence & Security Systems division's order intake increased by € 0.9 billion (+16%) due to MBDA (€ 0.5 billion) which received the Aster phase 3 contract in December 2003 and Military Aircraft (€ 0.6 billion) which booked higher orders for Eurofighter (namely from Austria), F18 and its A400M share.

Order book

The EADS order book improved by 6.5% to a total of € 179.3 billion at the end of 2003. With a constant Euro-US dollar exchange rate, the order book would have increased by 18% thanks to the high level of new orders in commercial aviation and defence businesses.

The Defence order book part reached € 45.7 billion, more than doubling compared to 2002 (€ 22 billion).

Table 6 - **Order Intake and Order Book by division**

	Order Intake		Order Book	
(in millions of €)	**2003**	2002	**2003**	2002
Airbus	39,904	19,712	141,836	140,996
Military Transport Aircraft	20,326	403	20,007	633
Aeronautics (1)	3,661	4,095	9,818	10,162
Space	6,062	2,145	7,888	3,895
Defence & Security Systems (1)	6,288	5,413	14,283	13,406
HQ / Consolidations	(15,091)	(759)	(14,552)	(753)
Total EADS Group	**61,150**	**31,009**	**179,280**	**168,339**

(1) New structure of Aeronautics and Defence divisions.

5.2 EADS N.V. Statutory Accounts

Table 7 - **Statutory Balance Sheets**

(in millions of €)	December 31, 2003	2002
Goodwill	4,354	4,618
Financial assets	9,647	5,479
Fixed assets	**14,001**	**10,097**
Receivables and other assets	3,778	5,343
Securities	307	657
Cash and cash equivalents	6,117	3,793
Non-fixed assets	**10,202**	**9,793**
Total assets	**24,203**	**19,890**
Capital stock	813	811
General reserves	15,336	11,954
Stockholders' equity	**16,149**	**12,765**
Financial liabilities	194	-
Other liabilities	7,860	7,125
Liabilities	**8,054**	**7,125**
Total liabilities and stockholders' equity	**24,203**	**19,890**

Table 8 - **Statutory Income Statements**

(in millions of €)	2003	2002
Income from investments	398	118
Other results	(246)	(417)
Net result	**152**	**(299)**

6. FINANCIAL TARGETS FOR 2004

EBIT*

EADS management expects an increase of operating results in the year 2004. Ahead of the commercial aviation market upturn which is expected in 2005, EADS targets an EBIT result of around € 1.8 billion in 2004 (€ 1,543 million in 2003).

With respect to the slow recovery of the airline industry which is still under pressure, EADS considers this guidance realistic and consistent with its emphasis on financial prudence and stability. These targets are a milestone on the road to double digit EBIT* margins in the medium-term, and they support EADS' solid financial position.

In anticipation of the legal requirement to apply IFRS rules, EADS has changed its accounting policy regarding development costs, to be fully compliant with IAS 38 rule. This change had no material effect in 2003 and approximately € 100 million of development costs are expected to be capitalised in 2004. The related effect of this accounting change is already included in the 2004 EBIT* target.

The successful delivery ramp up of missile programmes, Eurofighter, military helicopters and the acceleration of the A400M development revenues will contribute to the growth of EBIT*. At the same time, following the high level of defence contract acquisition, EADS management will focus on the profitable execution of these large programmes

**EBIT pre-goodwill amortisation and exceptionals - see definition in paragraph 5.1.2 page 13.*

and on the performance of the overall defence business. 2004 EBIT* will include costs and investments associated with the efficiency improvement plans to be launched at LFK and Defence and Communication Systems businesses.

The possible slight decline of Airbus deliveries and the continuing A380 R&D effort are expected to impact 2004 EBIT*, however, the recovery of the Space division will act as a significant source of increased profitability. The dramatic restructuring plans currently under implementation and a number of organizational improvements are the main drivers of the expected swing to breakeven EBIT* of this division in 2004.

Revenues

For 2004, the Company is targeting generally stable revenues of around € 29 - 30 billion for the fourth straight year in this general downturn of the industry. Defence business growth is expected to offset the decline of Airbus revenues attributable to the combination of the U.S. currency weakness and slightly lower deliveries.

The 2004 revenues target is based on the assumption of a weaker US$ than in 2003 (2003 budget rate 1€ = US$1.20, compared to 1€ = US$1.10 in 2002) for the calculation of the portion of revenues that is naturally hedged by US$ denominated costs (amounting to about one third of overall EADS revenues).

Following a careful assessment of its order book, Airbus anticipates delivering close to 300 aircraft in 2004, compared to 305 in 2003. A conservative management of delivery slots gives Airbus flexibility to face unexpected events and to keep customer financing within strict limits.

The Space division's revenues should be stable in 2004, supported by a robust order book (including 10 civil telecommunication satellites). Major programme such as the £ 2.5 billion Paradigm contract (Skynet 5 secure communication services for the UK MoD) and opportunities such as the design, delivery and operation of Galileo (European satellite navigation system) should fuel medium-term growth.

The ramp up of defence programmes in the other divisions (Military Transport Aircraft, Aeronautics, Defence and Security Systems) will prompt revenue growth: The strongest drivers of growth in 2004 will be the A400M, the Tiger and NH90 helicopters and missile programmes.

Cash

In 2004, EADS expects to continue generating a positive free cash flow before customer financing. Indeed, the Company will continuously strive to offset the cash outlays from the A380 investment and the Skynet 5 construction by ongoing cash preservation initiatives. Maintaining its financial discipline, EADS also intends to pursue its control of commercial aviation customer financing with gross exposure expected not to increase by more than approximately $ 900 million.

Order-intake

EADS expects to go on in 2004 with getting order-intake at a level higher than revenues.

Key EADS figures 2002 – 2004

(in billions of €)	2002	2003	2004 target
Revenues	29.9	30.1	29 - 30
EBIT*	1.43	1.54	~ 1.8
Order intake/revenues	1.04	2.03	> 1

** EADS uses EBIT pre goodwill amortisation 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 amortisation expenses of fair value adjustments relating to the EADS merger.*

7. EADS STRATEGIC CHALLENGES

7.1 Group Strategic Challenges

EADS is today confronted with an environment in which the level of geopolitical uncertainty and economic volatility has increased. Against this demanding context the Company has defined its strategic goals and priorities as follows.

7.1.1 Further strengthening EADS' competitive position

EADS has become a driving force in the global commercial aircraft market through Airbus. The Company is fully committed to make the success story of its subsidiary a long-lasting one and actively supports strategic developments such as the A380 as well as military derivatives. EADS is also a global force in helicopters through Eurocopter, in missiles through MBDA and LFK and in commercial launchers through EADS Space Transportation.

In spite of significant achievements obtained in 2003, the space and defence businesses still have to win ground against their key competitors. Growing in defence is a key objective, and EADS has set a target to achieve € ~ 10 billion revenues in 2005 with its military activities. This is achievable in the light of the programmes acquired in 2003, such as the A400M military transport aircraft, the Tiger and NH90 helicopter exports, the Aster missile programme and the provision of secure telecommunications services by Paradigm Secure Communications using Skynet 5 satellites.

7.1.2 Developing the role as a systems and solutions provider

The transformation process of U.S. and European defence forces and public safety agencies have changed the customer's demand, which is now more oriented towards lead system integration and service solutions.

For new growth areas of Network Enabled Operations such as Extended Air Defence, C4ISR[1], Unmanned Aerial Vehicles and Military Space EADS aims to achieve a clear prime position, building on its excellent positioning in the field of missiles and capabilities in defence electronics. Regarding civil activities, Air Traffic Management and Navigation are prominent examples of the fields in which EADS intends to develop.

EADS has identified the management of systems and services as another important field of development aimed at supporting its programme leadership. As well as pursuing platform in-fleet services such as the System Support Centre of Eurofighter, the Company will develop further in outsourced services. The successes achieved in the Paradigm and FSTA campaigns illustrate the potential of the Company in this new area of service solutions.

7.1.3 Enlarging global reach

EADS is a leading player in its four home countries: France, Germany, Spain and U.K. respectively. Industrial engagement in U.S., Asian and Russian markets represents substantial future growth potential.

In the U.S.A. the Company's strategy is based on transatlantic co-operations with U.S. prime contractors such as on the NATO AGS, the EuroHawk as well as on an increased industrial presence which includes the recently established Airbus design centre in Wichita, Kansas, and the Eurocopter plant in Mississippi. The target is to become a valued corporate citizen in the U.S.A.

EADS will continue to increase the number of industrial partnerships in Asia to strengthen its local presence, for example through partnership with Bridgestone Corporation and Mitsubishi Rayon Co., who recently joined the A380 programme -bringing the total of Japanese partners on the A380 programme to fifteen. Similarly, EADS has made a first step into China with the acquisition of a stake in AviChina. EADS is also actively participating in the restructuring of the industrial landscape in Russia.

7.1.4 Exploiting cross business synergies

EADS is convinced that the broad portfolio of its activities and technologies is beneficial for several reasons. First, the combination of know-how from different divisions, and the combination of civil and military products enables the Company to develop new businesses such as military transport and tanker aircraft. Second, Group-wide efforts in the area of Research & Technology and sourcing policy allows for increased cost efficiency and competitiveness of EADS products. Such business development policies are all the more necessary as U.S. players benefit from favorable budgetary conditions in their home market.

All the above allows for strong Value Creation and a Balanced Portfolio of activities: for 2004 it will be one of the top priorities to further increase EBIT* as a substantial step towards becoming a double digit EBIT* margin Company.

(1) Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance.

EADS is aiming to balance the Group portfolio better through an increased share of defence business in order to smooth the effects from cycles in the commercial aviation market. For the long-term, it is the aim for 30% of EADS' revenues to originate from defence businesses.

7.2 Divisions Outlook

Airbus

For 2004, Airbus still foresees a fairly soft market, which could become steadier in the last part of the year and pick up in 2005. Airbus deliveries are planned to be close to 300, compared to 305 in 2003. The total R&D budget for Airbus is expected to remain about stable at approximately € 1.8 billion and is essentially for the A380. Included in this R&D budget are about € 100 million of development costs that will be capitalised in compliance with the accounting rule on development costs (IAS 38).

Thanks to the large hedge portfolio put in place by the Group, Airbus is expected to be unaffected in 2004-2005 by the US dollar's volatility and weakness against the Euro. For subsequent years, a significant cost saving programme titled 'Route 06' is designed to bolster resistance to the effects of a sustained low level of the dollar.

For the longer term, global air traffic is forecasted to grow at close to 5% p.a., and the current surplus of aircraft is expected to unwind itself; Airbus - with a highly competitive product range which is the most comprehensive and modern in the industry - is exceptionally well-positioned to benefit strongly from the market recovery expected to begin in 2005, a year before the A380 enters service. At the same time, Airbus is expecting to see its R&D budget progressively decreasing as the A380 gets closer to entry in service.

Military Transport Aircraft

2004 will be a key year, with the progress of large programmes such as the A400M and US Deepwater programmes. These will foster revenues and profitability growth at the division in 2004 and subsequent years.

Besides, while EADS strives for the formal signature of the FSTA contract - which will open doors to the global tanker market - the Company expects consolidation in the P-3 modernisation programme for Brazil in 2004. Longer-term other opportunities for tanker aircraft include France, Australia, as well as the US market that EADS continues to target.

(1) Medium Extended Air Defence System.

Aeronautics

2004 will be the year of the first units' deliveries for NH90 and Tiger helicopters. Eurocopter's military business is expected to drive growth of the overall division revenues and profitability in 2004 and subsequent years.

Space

The Space division is in line with its plan to achieve EBIT* breakeven in 2004, assuming the fulfillment of existing contracts and increased benefits from ongoing restructuring. In subsequent years, the EADS Space division is expected to progressively increase profitability.

Thanks to strong foundations (as illustrated by the solid order-book) in the current depressed climate, the Space division expects to reap rewards when the commercial telecom satellites market turns around, as it would be in a strong position to drive future consolidation of space activities at the European level. In the institutional and military fields, medium-term growth will be fueled by major programmes such as Skynet 5/Paradigm and Galileo.

Defence and Security Systems

In 2004, the integration of this division will continue following the transfer of the Military Aircraft business from the Aeronautics division. Starting January 1, it has become fully operational. 2004 will be a challenging year as the division continues the parallel efforts of reorganisation and investments to enhance the efficiency of the restructured businesses and to adapt capacity to defence budget constraints. However, these additional costs should be compensated by performance improvement, mainly from the MBDA business. The division will also pursue all efforts towards signature of Eurofighter's tranche 2, Meads[1] development contract and Long Range Trigat production launch.

Over time, the division will benefit from the fruits of efficiency and restructuring plans and from the continuing ramp up of the missile and Eurofighter deliveries.

8. PRESENTATION OF THE RESOLUTIONS PROPOSED BY THE BOARD

The information contained in this Board Report and its annex as well as in the Auditors' Report is accurate and complete and will enable you to form an opinion on the situation of the Company and the operations, which are submitted to you for approval.

• First resolution

We propose that this AGM accepts and approves this Board Report including, in order to comply with Dutch law and the recommendations of the Dutch Code, the chapter on Corporate Governance, the policy on dividends, the proposed remuneration policy and the arrangements for the grant of stock options and rights to subscribe for shares for the members of the Board of Directors as described in this Board Report.

• Second and third resolutions

We propose that this AGM approves the audited annual financial statements for 2003 and resolves that the net profit of € 152 million, as shown in the profit and loss statement for the financial year 2003, shall be added to retained earnings and that a payment of a gross amount of € 0.40 per share shall be made to the shareholders from distributable reserves on June 4, 2004.

• Fourth resolution

We recommend that this AGM discharges the members of the Board from their responsibility for the conduct of the Company's business with respect to the financial year 2003.

• Fifth resolution

We recommend that the Company's auditors for the financial year 2004 should be Ernst & Young Accountants whose registered office is at Drentestraat 20, 1083 HK Amsterdam, the Netherlands, and KPMG Accountants N.V. whose registered office is at Churchillplein 6, 2517 JW The Hague, The Netherlands. Our proposal is thus to renew the same auditors as for the current financial year.

• Sixth and seventh resolutions

We recommend that this AGM (i) takes note of the resignation of Messrs. Eckhard Cordes and Jean-René Fourtou as members of the Board and (ii) appoints Messrs. Rüdiger Grube and François David as their respective successors effective as of the end of this AGM.

Mr. **Rüdiger Grube** is member of the Board of Management of DaimlerChrysler AG in charge of corporate development since 2002. He started his career in 1989 at Messerschmitt-Bölkow-Blohm (MBB). In 1995, he became Director of Corporate Planning and Technology of Deutsche Aerospace AG. In 1996, he was appointed Senior Vice President and Head of Corporate Strategy at Daimler-Benz AG and subsequently of DaimlerChrysler AG. In 2000, he became Senior Vice President for Corporate Development. Mr. Grube holds an engineers' degree in aircraft construction and engineering from the University in Hamburg and a doctorate in industrial science.

Mr. **François David** is Chairman and CEO of Coface, an international credit insurance and credit management service provider since 1994. He started his career in 1969 in the French Ministry of Finance as civil administrator at the foreign economic relations department in which he held various responsibilities. In 1986, he was named Director of the Cabinet of the French Minister of Foreign Trade. In 1987, he was appointed Director of external economic relations within the French Ministry of Economy, Finance and Budget. In 1990, he was named International Managing Director of the Aerospatiale Company. Mr. David is an alumnus of the École Nationale d'Administration, a graduate of the Institut d'Études Politiques de Paris, and he holds a degree in sociology.

• Eighth resolution

We propose that this AGM approves the cancellation of the shares repurchased by the Company, up to a maximum amount of 5,727,515 shares to compensate the dilution effect resulting from the issuance of the same number of shares for the purpose of the ESOPs 2001, 2002 and 2003.

• Ninth resolution

We propose that this AGM approves the renewal of the authorisation to the Board to repurchase shares of the Company, for a new 18-month period by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company will not hold more than 5% of the Company's issued share capital and at a price not less than the nominal value and not more than 110% of the price at which the Company's shares were quoted at close of business on any stock exchange on the trading day before such repurchase. The above authorisation will supersede and replace the authorisation granted by the AGM on May 6, 2003.

The resolutions submitted to your vote strictly conform to the terms of this Board Report and are in our opinion in the interests of the Company and the development of its activities.

Consequently, we invite you to adopt the resolutions and thank you for the trust you have repeatedly shown us at the key stages of the creation of EADS.

The Board of Directors

1. CONSOLIDATED INCOME STATEMENTS

(in millions of €)	Note	2003	2002	2001
Revenues	5, 6	**30,133**	**29,901**	**30,798**
Cost of sales	7	(24,594)	(24,465)	(25,440)
Gross margin		**5,539**	**5,436**	**5,358**
Selling expenses	7	(776)	(829)	(800)
Administrative expenses	7	(1,386)	(1,422)	(1,386)
Research and development expenses		(2,189)	(2,096)	(1,841)
Other income	8	196	248	3,024
Other expenses	7	(823)	(1,177)	(1,841)
thereof goodwill amortisation and related impairment losses	11	*(567)*	*(936)*	*(1,466)*
Income from operating activities	5	**561**	**160**	**2,514**
Income (loss) from investments		186	87	(342)
thereof income from associates		*224*	*108*	*22*
Interest income (expense), net		(203)	(81)	63
Other financial result		148	21	(234)
Financial result	9	**131**	**27**	**(513)**
Income taxes	10	(474)	(453)	(646)
Profit (loss) from ordinary activities		**218**	**(266)**	**1,355**
Minority interests		(66)	(33)	17
Net income (loss)		**152**	**(299)**	**1,372**
Earnings per share		**€**	**€**	**€**
Basic and diluted	31	0.19	(0.37)	1.70
Cash distribution per share (2003: proposal)	18	**0.40**	**0.30**	**0.50**

The accompanying notes are an integral part of these Consolidated Financial Statements.

2. CONSOLIDATED BALANCE SHEETS

(in millions of €)	Note	At December 31, 2003	2002
Assets			
Intangible assets	11	9,694	9,789
Property, plant and equipment	12	11,448	10,509
Investments in associates	13	1,640	1,333
Other investments and long-term financial assets	13	2,489	2,396
Fixed assets		**25,271**	**24,027**
Inventories	14	3,279	2,700
Trade receivables	15	4,001	4,114
Other receivables and other assets	16	10,280	5,256
Securities	17	468	799
Cash and cash equivalents		7,404	5,401
Non-fixed assets		**25,432**	**18,270**
Deferred taxes	10	**2,724**	**2,992**
Prepaid expenses		**951**	**965**
Total assets		**54,378**	**46,254**
Liabilities and shareholders' equity			
Capital stock		813	811
Reserves		9,589	9,658
Accumulated other comprehensive income		5,934	2,452
Treasury shares		(187)	(156)
Shareholders' equity	18	**16,149**	**12,765**
Minority interests		**2,179**	**1,361**
Provisions	19	**8,726**	**8,248**
Financial liabilities	20	4,767	3,830
Trade liabilities	21	5,117	5,070
Other liabilities	21	11,318	10,246
Liabilities		**21,202**	**19,146**
Deferred taxes	10	**3,664**	**2,014**
Deferred income	22	**2,458**	**2,720**
Total liabilities and equity		**54,378**	**46,254**

The accompanying notes are an integral part of these Consolidated Financial Statements.

3. CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of €)	2003	2002	2001
Net income (loss)	152	(299)	1,372
Income applicable to minority interests	66	33	(17)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortisation of fixed assets	2,375	2,768	3,560
Valuation adjustments	263	177	493
Dilution gain Airbus / MBDA	–	–	(2,817)
Deferred tax (income) expenses	(138)	255	109
Results on disposal of fixed assets/businesses and result of associates (equity method)	(274)	(227)	(93)
Change in provisions	246	(845)	47
Change in other operating assets and liabilities:	**2,019**	**804**	**2**
- Inventories, net	160	274	(655)
- Trade receivables	168	895	(894)
- Trade liabilities	116	(139)	766
- Other assets and liabilities	1,575	(226)	785
Cash provided by operating activities	**4,709**	**2,666**	**2,656**
Investments:			
- Purchases of fixed assets and increase in equipment of leased assets	(2,951)	(2,314)	(2,196)
- Payments for investments in financial assets and acquisitions of subsidiaries	(820)	(1,134)	(1,096)
- Proceeds from disposal of fixed assets and decrease in equipment of leased assets	55	240	402
- Proceeds from disposal of financial assets and subsidiaries	416	849	850
- Change in finance lease receivables	(359)	(599)	138
Change in securities	336	(264)	(390)
Cash from changes in consolidation	(152)	5	20
Cash used for investing activities	**(3,475)**	**(3,217)**	**(2,272)**
Change in financial liabilities	1,132	(774)	(465)
Cash contribution by minority interests	–	–	253
Cash distribution to EADS N.V. shareholders	(240)	(403)	(404)
Repayments/ dividends to minorities	(38)	(127)	(52)
Capital increase	21	16	21
Purchase of treasury shares	(31)	(156)	–
Others	8	(3)	(30)
Cash provided by (used for) financing activities	**852**	**(1,447)**	**(677)**
Effect of foreign exchange rate changes on cash and cash equivalents	(83)	(82)	14
Net increase (decrease) in cash and cash equivalents	**2,003**	**(2,080)**	**(279)**
Cash and cash equivalents at beginning of period	**5,401**	**7,481**	**7,760**
Cash and cash equivalents at end of period	**7,404**	**5,401**	**7,481**

The following represents supplemental information with respect to cash flows from **operating activities:**

(in millions of €)	2003	2002	2001
Interest paid	(311)	(407)	(335)
Income taxes paid	(383)	(318)	(520)
Interest received	338	403	506
Dividends received	55	49	50

The accompanying notes are an integral part of these Consolidated Financial Statements. For details, see Note 23, "Consolidated cash-flow statement".

4. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS 2003, 2002 AND 2001

(in millions of €)	Note	"Capital stock"	Reserves	"Accumulated other comprehensive income"	Treasury shares	Total
Balance at December 31, 2000		**807**	**9,359**	**84**		**10,250**
First application of IAS 39				(337)		(337)
Balance at January 1, 2001, adjusted		**807**	**9,359**	**(253)**		**9,913**
Capital increase ESOP		2	19			21
Net income			1,372			1,372
Cash distribution to EADS N.V. shareholders			(404)			(404)
Other comprehensive income				(1,025)		(1,025)
thereof changes in fair values of securities				(10)		
thereof changes in fair values of hedging instruments				(878)		
thereof currency translation adjustment				(137)		
Balance at December 31, 2001/ January 1, 2002		**809**	**10,346**	**(1,278)**		**9,877**
Capital increase ESOP		2	14			16
Net loss			(299)			(299)
Cash distribution to EADS N.V. shareholders			(403)			(403)
Purchase of treasury shares					(156)	(156)
Other comprehensive income				3,730		3,730
thereof changes in fair values of securities				(10)		
thereof changes in fair values of hedging instruments				2,713		
thereof currency translation adjustment				1,027		
Balance at December 31, 2002		**811**	**9,658**	**2,452**	**(156)**	**12,765**
Capital increase ESOP	18, 31	2	19			21
Net income			152			152
Cash distribution to EADS N.V. shareholders	18		(240)			(240)
Purchase of treasury shares	18				(31)	(31)
Other comprehensive income				3,482		3,482
thereof changes in fair values of securities				154		
thereof changes in fair values of hedging instruments				2,524		
thereof currency translation adjustment				804		
Balance at December 31, 2003		**813**	**9,589**	**5,934**	**(187)**	**16,149**

The accompanying notes are an integral part of these Consolidated Financial Statements.

BASIS OF PRESENTATION

1. THE COMPANY

The accompanying 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). EADS' core business is the manufacturing of commercial aircraft, civil helicopters, commercial space launch vehicles, missiles, military aircraft, satellites, defence systems and defence electronics and rendering of services related to these activities. The consolidated financial statements were authorised for issue by EADS' Board of Directors on March 5, 2004 and are prepared and reported in euros ("€").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation - The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), the accounting standards and interpretations approved by the International Accounting Standards Board ("IASB"). Improvements and amendments to International Accounting Standards (IAS) and recently issued IFRS have not been adopted before their effective date.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial instruments, financial assets and financial liabilities classified as held-for-trading, and hedged items in fair value hedges. To be in full compliance with IFRS, EADS changed its accounting policy regarding IAS 38 "Intangible assets", in particular capitalisation of development costs.

Changes in accounting policy - In 2003, EADS changed its accounting policy regarding capitalisation of product related development costs, as applied under the benchmark rules detailed in IAS 8, "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". As of December 31, 2003, product related 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 adjustment that relates to prior periods has not been reasonably determinable. The policy for capitalising product related development as internally generated intangible assets is described below. The effects of the application of IAS 38, "Intangible Assets", are disclosed in Note 11.

Consolidation - The consolidated financial statements include the subsidiaries under the control of EADS. Investments in which EADS has significant influence ("associated companies") are accounted for using the equity method. For investments in material joint ventures, EADS uses the proportionate method of consolidation. The effects of intercompany transactions are eliminated.

Business combinations are accounted for under the purchase accounting method; all assets acquired and liabilities assumed are recorded at fair value. Any excess of the purchase price over the fair value of net assets acquired is capitalized as goodwill and amortized over the estimated period of benefit on a straight-line basis. Any minority interest in the acquiree is stated at the minority's proportion of the net fair value of those items.

Special purpose entities are consolidated, when the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group. Special purpose entities are entities which are created to accomplish a narrow well-defined objective.

Foreign Currency Translation - The assets and liabilities of foreign entities, where the reporting currency is other than Euro, are translated using period-end exchange rates, while the statements of income are translated using average exchange rates during the period, approximating the foreign exchange rate at the dates of the transactions. All resulting translation differences are included as a separate component of shareholders' equity ("Accumulated other comprehensive income" or "AOCI").

Transactions in foreign currencies are translated into Euro at the foreign exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euro at the exchange rate in effect at that date. Foreign exchange gains and losses arising from translation are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Euro at the foreign exchange rate in effect at the date of the transaction.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquiring company and are recorded at the exchange rate at the date of the transaction.

Revenue Recognition - Revenue from the sale of goods is recognized upon the transfer of risks and rewards of ownership to the buyer and when the amount of revenue can be measured reliably. Revenue from services rendered is recognized in proportion to the stage of completion of the transaction at the balance sheet date. For construction contracts, when the outcome can be estimated reliably, revenue is recognized by reference to the stage of completion of the contract activity. The stage of completion of a contract may be determined by a variety of ways. Depending on the nature of the contract, revenue is recognized as contractually agreed-upon milestones are reached, the work progresses or units are delivered. Changes in profit rates are reflected in current earnings as identified. Contracts are regularly reviewed for possible losses and provisions for estimated losses on contracts are recorded when identified.

Incentives applicable to performance on contracts are considered in estimated profit rates and are recorded when anticipated contract performance is probable and can be reliably measured.

Sales of aircraft that include asset value guarantee commitments are accounted for as operating leases when these commitments are considered substantial compared to the fair value of the related aircraft. Revenues then comprise lease income from such operating leases.

Product-Related Expenses - Expenses for advertising and sales promotion and other sales-related expenses are charged to expense as incurred. Provisions for estimated warranty costs are recorded at the time the related sale is recorded.

Research and Development Expenses - Research and development activities can be (a) contracted or (b) self-initiated.

a) Costs for contracted research and development activities, carried out in the scope of externally financed research and development contracts, are expensed when the related revenues are recorded.

b) Costs for self-initiated research and development activities are assessed whether they qualify for recognition as internally generated intangible assets. Apart from complying with the general requirements for and initial measurement of an intangible asset, qualification criteria are met only when technical as well as commercial feasibility can be demonstrated and cost can be measured reliably. It must also be probable that the intangible asset will generate future economic benefits and that it is clearly identifiable and allocable to a specific product.

Further to meeting these criteria, only such costs that relate solely to the development phase of a self-initiated project are capitalised. Any costs that are classified as part of the research phase of a self-initiated project are expensed as

incurred. If the research phase can not be clearly distincted from the development phase, costs for that project are treated as if they were incurred in the research phase only.

Development costs that have been capitalised are generally amortised over the estimated number of units produced and are reviewed for impairment annually when the asset is not yet in use and further on whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Income Taxes - Deferred tax assets and liabilities reflect lower or higher future tax consequences that result for certain assets and liabilities from temporary valuation differences between the financial statement carrying amounts and their respective tax bases as well as from net operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period the new rates are enacted. As deferred tax assets anticipate potential future tax benefits, they are recorded in the consolidated financial statements of EADS only when the likelihood that the tax benefits will be realized is probable.

Intangible Assets - Purchased intangible assets, other than goodwill, are valued at acquisition cost and are generally amortized over their respective useful lives (3 to 10 years) on a straight line basis. Goodwill arising from purchase accounting is amortized over 5 to 20 years.

Property, Plant and Equipment - Property, plant and equipment is valued at acquisition or manufacturing costs less accumulated depreciation. Depreciation expense is recognized principally using the straight-line method. The costs of internally produced equipment and facilities include direct material and labour costs and applicable manufacturing overheads, including depreciation charges. Borrowing costs are not capitalized. The following useful lives are assumed: buildings 6 to 50 years; site improvements 6 to 20 years; technical equipment and machinery 3 to 20 years; and other equipment, factory and office equipment 2 to 10 years.

Property, plant and equipment includes capitalised development costs for tangible developments of specialized tooling for production such as jigs and tools, design, construction and testing of prototypes and models. In case recognition criteria of property, plant and equipment are met, these costs are capitalized and generally depreciated using the straight-line method over 5 years or, if more appropriate, using the number of production or similar units expected to be obtained from the tools (sum-of-the-units method). Especially for aircraft production programmes such as the Airbus A380 with an estimated number of aircraft to be produced using such tools, the sum-of-the-units method effectively allocates the diminution of value of specialized tools to the units produced.

Investment Property - The group accounts for investment property using the cost model. Investment property is recorded on balance sheet at book value, that is, at cost less any accumulated depreciation and any accumulated impairment losses. The fair value of investment property is reviewed annually by using cash-flow models or by determinations of open market prices.

Non-current available-for-sale financial assets - Non-current available-for-sale financial assets are included in the line **other investments and long-term financial assets** in the consolidated balance sheet and are accounted for at fair value. Unrealised gains and losses on available-for-sale investments are recognised directly as part of a separate component of shareholders' equity ("AOCI"), net of applicable deferred income taxes. As soon as such investments are sold or otherwise disposed of, or are determined to be impaired, the cumulative gain or loss previously recognised in equity is included in "Financial result" in the consolidated income statement for the period. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably estimated by alternative valuation methods are measured at cost, less any accumulated impairment losses. The fair values of investments are based on quoted market or bid prices or amounts derived from cash-flow models.

Impairment of assets - The Group reviews property, plant and equipment and other non-current assets, including goodwill and intangible assets allocated to cash-generating units for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and the carrying amount exceeds the recoverable amount, the respective asset or the assets in the cash-generating unit are written down to their recoverable amounts.

Leasing - The Group is a lessor and a lessee of assets, primarily in connection with commercial aircraft sales financing. Lease transactions where substantially all risks and rewards incident to ownership are transferred from the lessor to the lessee are accounted for as finance leases. All other leases are accounted for as operating leases.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less depreciation (see Note 12, "Property, plant and equipment"). Rental income from aircraft operating leases is recorded as revenue over the term of the lease. Assets leased out under finance leases cease to be recognized in the balance sheet after the inception of the lease. Instead, a finance lease payments receivable representing the discounted future lease payments to be received from the lessee plus any discounted unguaranteed residual value is recorded as long-term financial assets (see Note 13, "Other investments and long-term financial assets"). Unearned finance income is recorded over time in "Financial result". Revenues and the related cost of sales are recognised at the inception of the finance lease.

Assets obtained under finance leases are included in property, plant and equipment at cost less depreciation (see Note 12, "Property, plant and equipment"), unless such assets have been further leased out to customers. In such a case, the respective asset is either qualified as an operating lease or as a finance lease with EADS being the lessor (headlease-sublease-transaction) and is recorded accordingly. For the relating liability from finance leases see Note 20, "Financial liabilities". When EADS is the lessee under an operating lease contract, rental payments are recorded when they fall due (see Note 25, "Commitments and contingencies" for future operating lease commitments). Such leases often form part of commercial aircraft customer financing transactions with the related sublease being an operating lease (headlease-sublease-transaction).

Non-fixed Assets - Non-fixed assets represent the Group's inventories, receivables, securities and cash and cash equivalents, including amounts to be realized in excess of one year. In the accompanying notes, the portion of assets and liabilities to be realized and settled in excess of one year has been disclosed.

Inventories - Inventories are measured at the lower of acquisition or manufacturing cost or net realizable value. Manufacturing costs comprise direct material and labour and applicable manufacturing overheads, including depreciation charges. Borrowing costs are not capitalized. Inventory is presented in the consolidated balance sheet net of allocable advance payments received.

Securities - The group's securities are accounted for at fair value. All of the Group's securities are classified as available-for-sale securities. Management determines the appropriate classification at the time of purchase and revaluates such determination at each balance sheet date. Unrealised gains and losses on available-for-sale securities are recognised directly within a separate component of stockholders' equity ("AOCI"), net of applicable deferred income taxes. As soon as such securities are sold or otherwise disposed of, or are determined to be impaired, the cumulative gain or loss previously recognised in equity is recorded as part of "Financial result" in the consolidated income statement for the period. The fair value of available-for-sale securities is determined using quoted market prices. If a quoted market price is not available, fair value is determined on the basis of generally accepted valuation methods on the basis of market information available at the reporting date. All purchases and sales of securities are recognized on settlement date according to market conventions.

Cash and cash equivalents - Cash and cash equivalents consist of cash on hand, cash in bank, checks, fixed deposits having a short-term maturity and short-term securities that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

To conform with the consolidated cash-flow statement, as of December 31, 2003 and in line with IAS 7, "Cash Flow Statements", EADS changed its presentation regarding cash and cash equivalents in the consolidated balance sheet. Short-term securities that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, which had previously been disclosed as part of the line item "Securities" in the consolidated balance sheet, have been reclassified to the line item "Cash and cash equivalents".

Derivative Financial Instruments - Effective January 1, 2001, EADS adopted IAS 39, "Financial Instruments: Recognition and Measurement", which requires all derivative financial instruments be recognized in the financial statements. Derivative financial instruments are initially recognized in the consolidated balance sheet at cost and are subsequently measured at fair value. Changes in the fair value of derivative financial instruments are recognized either in income or, in the case of a cash flow hedge, within a separate component of stockholders' equity ("AOCI"), net of applicable income taxes, and subsequently recognized in the consolidated income statement as a component of the related transactions, when realized. For derivative financial instruments designated as fair value hedges, changes in the fair value of the hedged item and the derivative are recognised in the consolidated income statement. Gains and losses on derivative financial instruments, both realized and unrealized, that do not qualify for hedge accounting are included in "Net income (loss)".

EADS uses derivative financial instruments for hedging purposes. Derivative financial instruments used in micro-hedging strategies to offset the Group's exposure to identifiable transactions are accounted for together with the underlying business transactions ("hedge accounting"). The Group's criteria for classifying a derivative financial instrument as a hedge include: (1) the hedge transaction is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk, (2) for cash flow hedges, a forecasted transaction that is subject of the hedge must be highly probable, (3) the effectiveness of the hedge can be reliably measured, (4) there is adequate documentation of the hedging relationships at the inception of the hedge.

With the adoption of IAS 39, all derivative financial instruments have been recognized as assets or liabilities. Derivative financial instruments with a negative fair value are recorded as "Provisions for financial instruments". Derivative financial instruments with positive fair values are recorded in "Other receivables and other assets".

The opening balance of equity as at January 1, 2001 has been adjusted. Under the new standard, the Group applies hedge accounting for certain foreign currency derivative contracts on qualifying cash flow hedges of future sales as well as for certain interest rate swaps used as cash flow and fair value hedges of future interest payments. In case certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39, changes in fair value of such derivative financial instruments are recognized immediately in "Net income (loss)". Up to December 31, 2000, certain of the Group's hedging instruments have been used as macro-hedging instruments. In order to achieve the same treatment as for the existing micro-hedges, EADS was able to document for most of these instruments that from the date of designation, a hedging relationship existed between each position being hedged and each hedging derivative financial instrument. Those derivative financial instruments that did not qualify for hedge accounting are classified as held-for-trading and are carried at fair value, with changes in fair value included in "Financial result". The provision established for the mark-to-market valuation of the derivate financial instruments that formed part of macro-hedges as of December 31, 2000, will evolve until the derivatives mature. See Note 26, "Information about financial instruments" for a description of the group's financial risk management strategies, the fair values of the Group's derivative financial instruments as well as the methods used to determine such fair values.

Provisions - Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation's amount can be made.

Provisions for financial guarantees corresponding to aircraft sales are recorded to reflect the underlying risk to the Group in respect of guarantees given when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimates can be made of the amount of the obligation. The amount of these provisions is calculated to cover the difference between the Group exposure and the estimated value of the collateral.

Outstanding costs are provided for at the best estimate of future cash outflows. Provision for other risks and charges relate to identifiable risks representing amounts expected to be realized.

Provisions for contract losses are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write-downs of work-in-process for that portion of the work which has already been completed, and as provisions for risks for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

Provisions for litigation and claims are set in case legal actions, governmental investigations, proceedings and other claims are pending or may be instituted or asserted in the future against the Group which are a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required for the settlement and a reliable estimate of the obligation's amount can be made.

The valuation of **pension and post-retirement benefits** classified as defined benefit plans is based upon the projected unit credit method in accordance with IAS 19, “Employee Benefits”. According to the corridor approach of IAS 19.92, EADS does not recognize actuarial gains and losses as income and expense unless, for each individual plan, they exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets. Such actuarial gains and losses are deferred and recorded over the expected average remaining working lives of the employees participating in each plan.

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Financial liabilities - Financial liabilities are recorded initially at the proceeds received, net of transaction costs incurred. Subsequently, financial liabilities are measured at amortized cost using the effective interest rate method with any difference between proceeds (net of transaction costs) and redemption amount being recognized in “Financial result” over the period of the financial liability.

Refundable Advances - Refundable advances from European Governments are provided to the Group to finance research and development activities for certain projects on a risk-sharing basis, i.e. they have to be repaid to the European Governments according to the success of the project. Because of their risk-sharing basis, such refundable advances are fully recorded as "Other Liabilities".

Equity compensation plans - EADS classifies equity compensation plans as either compensatory plans or non-compensatory plans. If a plan qualifies as a non-compensatory plan, no compensation expense is recorded. On the other hand, a compensatory plan may result in recognition of compensation expense. Upon adoption of a new plan, the Group determines whether the plan is compensatory or non-compensatory. EADS recognises all employee stock ownership plans to be non-compensatory if, at grant date, the granted discount does not exceed 15% of the market share price, and the plan covers virtually all of the Group's employees.

Compensation cost for compensatory equity compensation plans is measured on the measurement date, which is the date on which both the number of shares and the exercise price are first known, using the intrinsic-value-based method of accounting. If the terms of the plan or award are such that the number of shares and exercise price are set on the grant date, fixed-plan accounting applies. If, on the other hand, the number of shares, the exercise price, or both are not "fixed" on the grant date, variable-plan accounting applies.

Fixed-plan accounting prescribes calculating compensation cost on the grant date. When the share price at grant date is exceeding the granted exercise price, compensation has to be recognized as compensation expense over the vesting period. The compensation cost that is calculated cannot be adjusted (assuming that future events do not trigger the need to subsequently apply variable-plan accounting or to re-measure compensation cost) for future changes in the stock-based compensation award's intrinsic value. On the other hand, variable-plan accounting requires a continual recalculation of compensation cost until both the number of shares and the exercise price are known (i.e., until there has been a measurement date).

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification and changes in presentation - The presentation of certain prior year information has been reclassified to conform to the current year presentation (see Note 13 "Investments in associates, other investments and long-term financial assets", Note 17 "Securities" and Note 20 "Financial liabilities").

In order to more appropriately present the financial performance in line with IAS 1 "Presentation of Financial Statements" the income statement presentation is changed as follows. The subtotal "Income before financial result, income taxes and minority interest" is renamed to "Income from operating activities". Goodwill amortisation and related impairment losses previously presented in a separate caption are included in "other expenses". The new subtotal "Profit (loss) from ordinary activities" is inserted and the previously presented subtotal "Profit (loss) before income taxes and minority interests" is deleted.

3. SCOPE OF CONSOLIDATION

Perimeter of consolidation (December 31, 2003) - The consolidated financial statements include, in addition to EADS N.V.:

- 237 companies which are fully consolidated (2002: 216),
- 17 companies which are proportionately consolidated (2002: 34),
- 17 companies, which are investments in associates and are accounted for using the equity method (2002: 16).

Significant subsidiaries, associates, and joint ventures are listed in the appendix entitled "Information on principal investments".

4. ACQUISITIONS AND DISPOSALS

a) Acquisitions

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

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 share of Dornier GmbH (2002: 76%).

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

Apart from those mentioned, other acquisitions by the Group are not material.

b) Disposals

Nortel Networks and EADS reorganized their joint telecommunications activities in France and Germany. On 18 September, 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. ("ETF"), 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 ETF.

On March 6, 2002, Airbus sold its share in Aircelle, a joint venture with Snecma, to Snecma. The selling price amounted to 63 M €.

On November 20, 2002, EADS sold EADS Matradatavision ("MDTV") to IBM. The sales agreement includes all except two subsidiaries of MDTV, which will be sold separately. The selling price amounted to 12 M €.

Apart from those mentioned, other dispositions by the Group were not significant.

c) Subsequent changes in value of assets and liabilities acquired and cost of acquisition

Subsequent to the creation of MBDA and the acquisitions of Tesat and Cogent, all in 2001, it became evident in 2002 that previous estimates of assets and liabilities regarding these three transactions had to be adjusted. Further to this, subsequent to the acquisition of Tesat and Cogent, the amounts of the final purchase prices were resolved in 2002. Accordingly, goodwill was increased by 73 M € in 2002.

NOTES TO THE CONSOLIDATED STATEMENTS OF INCOME

5. SEGMENT REPORTING

The Group operates in 5 divisions (segments) which reflect the internal organisational 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 Aircraft**

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 and training 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 space services.

The following tables present 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 & Civil Systems division has been renamed in Defence & Security Systems 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.

a) Business Segment Information for the year ended December 31, 2003

(in millions of €)	Airbus	Military Transport	Aero-nautics	Defence &Security Systems	Space	HQ/ Conso.	Conso-lidated
Total revenues	19,411	1,170	4,175	5,484	2,434	(1,219)	31,455
Internal revenues	(363)	(236)	(372)	(319)	(10)	(22)	(1,322)
External revenues	**19,048**	**934**	**3,803**	**5,165**	**2,424**	**(1,241)**	**30,133**
EBIT pre goodwill amortisation and exceptionals (see definition below)	1,353	30	217	171	(400)	172	1,543
Income from operating activities	809	15	203	19	(425)	(60)	561
Share of net profit of associates	5	0	0	(6)	0	225	224
Income / loss from other investments, interest and other financial result							(93)
Income taxes							(474)
Result from ordinary activities							218
Minority interest							(66)
Net income (loss)							152
Other information							
Identifiable segment assets (incl. goodwill)	30,960	950	4,139	9,236	3,931	5,162	54,378
Goodwill	6,342	0	111	2,321	545	53	9,372
Investments in equity method associates	0	0	0	7	0	1,633	1,640
Segment liabilities	20,784	693	3,000	3,609	6,791	1,173	36,050
Capital expenditures	2,027	28	142	207	473	74	2,951
Depreciation, amortisation	1,628	31	136	287	134	159	2,375
Research and development expenses	1,819	23	62	223	62	0	2,189

b) Business Segment Information for the year ended December 31, 2002

(in millions of €)	Airbus	Military Transport	Aero-nautics	Defence &Security Systems	Space	HQ/ Conso.	Conso-lidated
Total revenues	19,689	708	4,205	5,089	2,223	(912)	31,002
Internal revenues	(177)	(184)	(371)	(319)	(7)	(43)	(1,101)
External revenues	**19,512**	**524**	**3,834**	**4,770**	**2,216**	**(955)**	**29,901**
EBIT pre goodwill amortisation and exceptionals (see definition below)	1,361	(80)	180	122	(268)	111	1,426
Income from operating activities	818	(87)	168	(93)	(626)	(20)	160
Share of net profit of associates	0	0	0	0	(3)	111	108
Income/ loss from other investments, interest and other financial result							(81)
Income taxes							(453)
Result from ordinary activities							(266)
Minority interest							(33)
Net income (loss)							(299)
Other information							
Identifiable segment assets (incl. goodwill)	26,776	696	4,169	9,240	3,068	3,451	47,400
Goodwill	6,715	0	118	2,285	436	32	9,586
Investments in equity method associates	0	0	0	0	0	1,333	1,333
Segment liabilities	20,797	521	3,227	6,464	2,698	(433)	33,274
Capital expenditures	1,674	68	137	189	89	157	2,314
Depreciation, amortisation	1,614	64	198	241	141	160	2,418
Impairment losses recognized in income	0	0	0	0	350	0	350
Research and development expenses	1,682	40	90	227	59	(2)	2,096

As a rule, inter-segment transfers are carried out on an arm's length basis. Inter-segment sales predominantly take place between Aeronautics, Defence & Security Systems and Airbus, as the Aeronautics and Defence & Security Systems divisions act as main suppliers for Airbus aircraft as well as between the Military Transport and Airbus division regarding the A400 M programme.

Capital expenditures represent the additions to property, plant and equipment and to intangible assets (excluding goodwill).

c) EBIT pre goodwill amortisation and exceptionals

EADS uses EBIT pre goodwill amortisation 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 amortisation expenses of fair value adjustments relating to the EADS merger, the Airbus Combination and the formation of MBDA, as well as impairment charges. EBIT pre goodwill amortisation and exceptionals is treated by management as a key indicator to measure the segments' economic performances.

(in millions of €)	2003	2002	2001
Income from operating activities	**561**	**160**	**2,514**
Dilution gain Airbus UK, MBDA	0	0	(2,794)
Goodwill amortisation and related impairment charges	567	936	1,466
Exceptional depreciation (fixed assets)	214	227	260
Exceptional depreciation (financial assets)	0	0	315
Exceptional depreciation (inventories)	15	16	275
Income from investments	186	87	(342)
EBIT pre goodwill amortisation and exceptionals	**1,543**	**1,426**	**1,694**

d) Revenues by destination

(in millions of €)	2003	2002	2001
France	3,521	3,872	3,521
Germany	3,651	2,476	3,588
United Kingdom	2,121	2,452	1,756
Spain	1,000	1,309	1,101
Other European Countries	3,687	4,248	4,089
North America	8,056	10,562	10,394
Latin America	677	1,259	1,749
Asia/Pacific	4,033	2,010	1,601
Middle East	2,873	1,258	1,400
Other Countries	514	455	1,599
Consolidated	**30,133**	**29,901**	**30,798**

Revenues are allocated to geographical areas based on the location of the customer.
Most of the Group's assets and capital expenditures are located in the European Union.

6. REVENUES

Revenues in 2003 reached 30,133 M € compared with 29,901 M € in 2002 and 30,798 M € in 2001. Revenues in 2003 slightly increased in comparison with 2002 mainly contributed by Military Transport, Defence & Security Systems and Space (full consolidation of Astrium). Despite a more favourable aircraft mix and stable deliveries of Airbus, revenues decreased due to a lower US Dollar exchange rate compared to Euro.

Revenues mainly comprised of sales of goods and services, as well as of revenues associated with construction contracts accounted for under the percentage-of-completion-method, contracted research and development and customer financing revenues. For a breakdown of revenues by business segment and geographical region, refer to Note 5, "Segment reporting".

Detail of **Revenues:**

(in millions of €)	2003	2002	2001
Total revenues	**30,133**	**29,901**	**30,798**
Thereof revenues from the delivery of goods & services	25,110	25,832	26,382
Thereof revenues from construction contracts (including contracted research and development)	4,295	3,741	2,996

7. FUNCTIONAL COSTS AND OTHER EXPENSES

Included in cost of sales and other functional costs are **Cost of materials** of 18,838 M € (2002: 19,216 M €; 2001: 20,036 M €).

Cost of sales include the amortisation charge of the remaining capitalized settlement payment to the German Government with respect to refundable advances of 40 M € (2002: 99 M €; in 2001: 317 M €).

Cost of sales also include the amortisation expenses of fair value adjustments of fixed assets and inventory for 229 €M (2002: 243 €M); these are relating to the EADS merger, the Airbus Combination and the formation of MBDA.

Selling, administrative and other expenses are comprised of:

(in millions of €)	2003	2002	2001
Selling cost	776	829	800
General administration cost	1,386	1,422	1,386
Other operating expenses	256	241	375
Thereof losses from sales of fixed assets	15	5	20
Thereof restructuring measures	12	16	31
Total	**2,418**	**2,492**	**2,561**

Personnel expenses are:

(in millions of €)	2003	2002	2001
Wages, salaries and social contributions	7,238	7,147	6,606
Net periodic pension cost (see Note 19 b)	359	319	257
Total	**7,597**	**7,466**	**6,863**

8. OTHER INCOME

(in millions of €)	2003	2002	2001
Other operating income	196	248	3,024
Thereof rental income	39	38	33
Thereof release of allowances	17	8	21
Thereof income from sales of fixed assets	7	89	100
Thereof dilution gain as a result of the Airbus UK / MBDA transactions	0	0	2,817

The income from sale of non-current assets included in 2002 a gain on the disposal of EADS' 50% share in Aircelle (63 M €).

9. FINANCIAL RESULT

(in millions of €)	2003	2002	2001
Income (loss) from investments	186	87	(342)
Interest income/ (expense), net	(203)	(81)	63
Other financial result	148	21	(234)
Total	**131**	**27**	**(513)**

The **income from investments** in 2003 is mainly derived from the result of the equity investments in Dassault Aviation of 225 M € (2002: 111 M €; 2001: 111 M €) partly offset by impairment of investments (in 2003: 30 M € for CAC Systèmes and Hispasat; in 2002: 29 M € for Arianespace Participation S.A.; in 2001: 315 M € for Nortel Networks France and Nortel Networks Germany).

Since for the second half-year 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 for 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 €.

Interest income/(expense), net, in 2003 comprises interest income of 456 M € (2002: 526 M €) and interest expense of (659) 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 expense includes interest on financial liabilities and European Government refundable advances.

Other financial result in 2003 includes fair value gains on embedded derivatives not used in hedging relationships in the amount of 70 M € (in 2002: 26 M €). In 2001 other financial loss mainly resulted from mark-to-market revaluation of financial instruments that did not qualify for "hedge accounting".

10. INCOME TAXES

The (expense for) benefit from income taxes is comprised of the following:

(in millions of €)	2003	2002	2001
Current tax expense	(612)	(198)	(549)
Deferred tax (expense) / benefit	138	(255)	(97)
Total	**(474)**	**(453)**	**(646)**

The Group's parent company, EADS N.V., legally seated in Amsterdam, The Netherlands, applies Dutch tax law using an income tax rate of 34.5% for December 31, 2003 and 2002 (35% at December 31, 2001). All foreign subsidiaries however apply their national tax rates, among others Great Britain 30% and Spain 35%.

In France, the corporate tax rate in effect for 2003 and 2002 was 33 1/3% plus surcharges of 3% ("contribution permanente") and 3,3% ("contribution sociale"). For the year 2001, the "contribution permanente" was 6%. Accordingly, deferred tax assets and liabilities for the Group's French subsidiaries were calculated using the enacted tax rate of 35.43% at December 31, 2003 and 2002 for temporary differences (36.43% at December 31, 2001).

In Germany, the "Flutopfersolidaritätsgesetz" (flood victim solidarity act) was enacted in September 2002, leading to a 1.5% increase of federal corporate tax for the fiscal year 2003. Accordingly, for the Group's German subsidiaries, income taxes are calculated using a federal corporate tax rate of 26.5% for December 31, 2003, plus (i) an annual solidarity surcharge of 5.5% on the amount of federal corporate taxes payable and (ii) the after federal tax benefit rate for trade tax of 12.0% for 2003. In aggregate, the tax rate applied to German income taxes amounts to 40.0% in 2003. As at December 31, 2002, deferred taxes reversing in 2003 had been calculated with the above mentioned tax rate of 40.0%. Deferred taxes as at December 31, 2003 as well as for December 31, 2002 with a reversal scheduled for later than 2003 and as at December 31, 2001, were calculated using a federal corporate tax rate of 25%, plus (i) an annual solidarity surcharge of 5.5% and (ii) the after federal tax benefit rate for trade tax of 12.125%. In aggregate, the tax rate applied to German deferrd taxes amounts to 38.5%.

The following table shows a reconciliation from the theoretical income tax expense - using the Dutch corporate tax rate of 34.5% as at December 31, 2003 and December 31, 2002 (35% as at December 31, 2001) - to the reported tax expense. The reconciling items represent, besides the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported financial statements according to IFRS rules.

(in millions of €)	2003	2003 in % of "Profit before income taxes and minority interests"	2002	2001
Profit before income taxes and minority interests	692		187	2,001
* Corporate income tax rate		34.5%	34.5%	35 %
Expected benefit (expense) for income taxes	(239)	34.5%	(65)	(700)
Effects from tax rate differentials and changes	(26)	3.8%	(35)	(5)
Effect from dilution gain as a result of the Airbus UK / MBDA transactions in 2001	0	–	0	936
Goodwill amortisation and impairments	(191)	27.6%	(321)	(588)
Write down of deferred tax assets	(119)	17.2%	(11)	(264)
Tax credit for R&D expenses	69	(10.0)%	53	48
Results on associates (at equity)	76	(11.0)%	28	15
Tax effect on investments	(35)	5.1%	(39)	(73)
Other	(9)	1.3%	(63)	(15)
Reported tax benefit (expense)	(474)	68.5%	(453)	(646)

Deferred income taxes are the result of temporary differences between the carrying amounts of certain assets and liabilities in the financial statements and their tax bases. Future tax impacts from net operating losses and tax credit carry forwards are also considered in the deferred income tax calculation.

Deferred income taxes are related to the following assets and liabilities:

	Deferred tax assets		Deferred tax liabilities		Net December 31,	
(in millions of €)	2003	2002	2003	2002	2003	2002
Intangible assets	23	18	(37)	(3)	(14)	15
Property, plant and equipment	7	208	(1,108)	(1,140)	(1,101)	(932)
Investments and long-term financial assets	25	38	(145)	(145)	(120)	(107)
Inventories	287	346	(273)	(5)	14	341
Receivables and other current assets	666	489	(3,159)	(1,389)	(2,493)	(900)
Prepaid expenses	8	1	(45)	(33)	(37)	(32)
Retirement plans	674	587	0	(2)	674	585
Other provisions	729	747	(82)	(265)	647	482
Liabilities	1,230	1,164	(505)	(453)	725	711
Deferred income	698	743	(21)	(18)	677	725
Net operating loss and tax credit carry forwards	817	654	–	–	817	654
Deferred tax assets / (liabilities) before netting	**5,164**	**4,995**	**(5,375)**	**(3,453)**	**(211)**	**1,542**
Write down of deferred tax assets	(729)	(564)	–	–	(729)	(564)
Set off of tax	(1,711)	(1,439)	1,711	1,439	–	–
Net Deferred tax assets / (liabilities)	**2,724**	**2,992**	**(3,664)**	**(2,014)**	**(940)**	**978**
Thereof less than one year	1,237	1,115	(955)	(664)	282	451
Thereof more than one year	1,487	1,877	(2,709)	(1,350)	(1,222)	527

The increase in deferred tax liabilities in 2003 on receivables and other current assets is mainly related to the variation of the fair valuation of the financial instruments according to IAS 39.

The amount of the Group's deferred tax assets' allowances is based upon management's estimate of the level of deferred tax assets that will be realized in the future. In future periods, depending upon the Group's financial results, management's estimate of the amount of the deferred tax assets considered realizable may change, and hence the write down of deferred tax assets may increase or decrease.

Deferred taxes on Net Operating Losses and Tax Credit carry forwards:

(in millions of €)	France	Germany	Spain	UK	Other countries	December 31, 2003	December 31, 2002
Net Operating Losses (NOL)	422	753	30	661	108	1,974	1,659
Capital losses	18					18	24
Trade tax loss carry forwards		706				706	524
Tax credit carry forwards			126		5	131	87
Tax effect	**153**	**285**	**136**	**198**	**45**	**817**	**654**
Write downs						(357)	(282)
Deferred tax assets on NOL's and tax credit carry forwards						**460**	**372**

NOL's, capital losses and trade tax loss carry forwards are indefinite in France, Germany and in Great Britain. In Spain NOL's and tax credit carry forwards expire after 15 years.

The first tranche of tax credit carry forwards (11 M €) will expire in 2014.

Roll forward of deferred taxes:

(in millions of €)	2003	2002
Net deferred tax asset beginning of the year	**978**	**3,482**
Deferred tax income (expense) in income statement	138	(255)
Deferred tax recognised directly in equity	(1,762)	(1,872)
Others	(294)	(377)
Net deferred tax (liability) / asset at year end	**(940)**	**978**

In the above table in the line "Others" mainly represents foreign exchange differences.

The deferred tax recognized directly in equity is as follows:

(in millions of €)	2003	2002
Available-for-sale investments	5	8
Cash flow hedges	(2,810)	(1,051)
Total	**(2,805)**	**(1,043)**

NOTES TO THE CONSOLIDATED BALANCE SHEETS

11. INTANGIBLE ASSETS

Intangible assets principally represent goodwill. Schedules detailing gross values, accumulated depreciation and net values of intangible assets are as follows:

Cost

(in millions of €)	Balance at January 1, 2003	Exchange differences	Additions	Changes in consolidation scope	Reclassi-fication	Disposals	Balance at December 31, 2003
Goodwill	12,339	(15)	334	52	–	–	12,710
Other intangible assets	470	(11)	199	2	–	(10)	650
Total	**12,809**	**(26)**	**533**	**54**	**–**	**(10)**	**13,360**

Amortisation

(in millions of €)	Balance at January 1, 2003	Exchange differences	Amortisation charge	Changes in consolidation scope	Reclassi-fication	Disposals	Balance at December 31, 2003
Goodwill	(2,753)	3	(567)	(21)	–	–	(3,338)
Other intangible assets	(267)	7	(74)	(2)	–	8	(328)
Total	**(3,020)**	**10**	**(641)**	**(23)**	**–**	**8**	**(3,666)**

Net book value

(in millions of €)	Balance at January 1, 2003	Exchange differences	Additions	Changes in consolidation scope	Reclassi-fication	Disposals	Balance at December 31, 2003
Goodwill	9,586	(12)	(233)	31	–	–	9,372
Other intangible assets	203	(4)	125	–	–	(2)	322
Total	**9,789**	**(16)**	**(108)**	**31**	**–**	**(2)**	**9,694**

Goodwill mainly increased in 2003 due to acquisition of EADS Telecom France (+131 M €), Astrium (+94 M €), Dornier (+62 M €), ASL Lemwerder (+38 M €) and Gesellschaft für Flugzieldarstellung (+7 M €).

Goodwill impairment tests

Similar to previous periods, EADS performed impairment tests on level of Cash Generating Units. Based on current forecasts and projections of pre-tax cash-flows the value in use of Cash Generating Units was determined applying a pre-tax discount rate of 12.5%. The recoverable amounts have exceeded the carrying amounts of the Cash Generating Units under review, indicating no goodwill impairment for 2003.

In 2002 an impairment charge of 350 M € was set up for the Cash Generating Units Satellite and Communication and Casa Space Business, furthermore in 2001, impairment tests were performed for goodwill for the Space and Defence & Security Systems divisions, which resulted in impairments charges for Astrium of 210 M €, for Systems & Defence Electronics (S&DE) of 240 M €, for LFK of 170 M € and for Matra Datavision of 170 M €.

Development Costs

In 2003, with the application of IAS 38, "Intangible Assets", the Group assessed whether product related development costs qualify for capitalisation as internally generated intangible assets. Current and previous research and development programmes have been reviewed regarding potential expenses in the development phase of such programmes that meet the recognition criteria. EADS considers that due to the complexity of its products (especially civil aircraft like A 380), processes carried out in the various research and development phases are of such interaction that a proper distinction between the research phase from the development phase can not be made up to only a very late stage of the programme. In addition, for past programmes, retroactive proper allocation of costs as required by IAS 38 has not been possible because there was no system in place to gather the necessary information. As a consequence, EADS capitalised 4 M € incurred in 2003 as internally generated intangible asset. Previous financial statements had not been impacted.

12. PROPERTY, PLANT AND EQUIPMENT

Schedules detailing gross values, accumulated depreciation and net values of property, plant and equipment show the following:

Cost

(in millions of €)	Balance at January 1, 2003	Exchange differences	Additions	Changes in consolidation scope	Reclassification	Disposals	Balance at December 31, 2003
Land, leasehold improvements and buildings including buildings on land owned by others	4,222	(47)	231	38	461	(36)	4,869
Technical equipment and machinery	5,791	(269)	462	56	285	(184)	6,141
Other equipment, factory and office equipment	5,864	(310)	550	83	125	(98)	6,214
Advance payments relating to plant and equipment as well as construction in progress	1,687	(51)	1,509	5	(810)	(27)	2,313
Total	**17,564**	**(677)**	**2,752**	**182**	**61**	**(345)**	**19,537**

Depreciation

(in millions of €)	Balance at January 1, 2003	Exchange differences	Depreciation charge	Changes in consolidation scope	Reclassification	Disposals	Balance at December 31, 2003
Land, leasehold improvements and buildings including buildings on land owned by others	(1,472)	19	(204)	(20)	(82)	20	(1,739)
Technical equipment and machinery	(3,352)	190	(594)	(36)	103	163	(3,526)
Other equipment, factory and office equipment	(2,179)	187	(749)	(64)	(65)	87	(2,783)
Advance payments relating to plant and equipment as well as construction in progress	(52)	–	–	–	–	11	(41)
Total	**(7,055)**	**396**	**(1,547)**	**(120)**	**(44)**	**281**	**(8,089)**

Net book value

(in millions of €)	Balance at January 1, 2003	Exchange differences	Depreciation charge	Changes in consolidation scope	Reclassification	Disposals	Balance at December 31, 2003
Land, leasehold improvements and buildings including buildings on land owned by others	2,750	(28)	27	18	379	(16)	3,130
Technical equipment and machinery	2,439	(79)	(132)	20	388	(21)	2,615
Other equipment, factory and office equipment	3,685	(123)	(199)	19	60	(11)	3,431
Advance payments relating to plant and equipment as well as construction in progress	1,635	(51)	1,509	5	(810)	(16)	2,272
Total	**10,509**	**(281)**	**1,205**	**62**	**17**	**(64)**	**11,448**

The item "Other equipment, factory and office equipment" includes aircraft which (i) have been leased out to customers and are classified as operating lease with a net book value of 1,266 M € and 1,336 M € at December 31, 2003 and 2002, and (ii) have been sold under terms that include asset value guarantee commitments with the present value of the guarantee being more than 10% of the aircraft's sales price (assumed to be the fair value) and thus accounted for as operating lease with a net book value of 1,505 M € and 1,709 M € at December 31, 2003 and 2002. Upon the initial sale of these aircraft to the customer, their total cost previously recognized in inventory is transferred to "Other equipment, factory and office equipment" and depreciated over its estimated useful economic life, with the proceeds received from the customer being recorded as deferred income (see Note 22, "Deferred income").

The net book value of aircraft under operating lease amounts to 2,771 M € and 3,045 M € as of December 31, 2003 and 2002, respectively (related accumulated depreciation is 1,702 M € and 1,445 M € including accumulated impairment of 590 M € and 459 M €, respectively). Depreciation expense for 2003 amounts to 439 M € (2002: 263 M €). See Note 25, "Commitments and contingencies" for details on sales financing transactions.

Non-cancellable future operating lease payments (not discounted) due from customers to be included in revenues, at December 31, 2003 are as follows:

(in millions of €)	
not later than 2004	184
later than 2004 and not later than 2008	280
later than 2008	101
Total	**565**

In 2002, the Group reclassified five Beluga aircraft from "Other equipment, factory and office equipment" to "Technical equipment and machinery". These Beluga aircraft are used for production purposes. This was partly offset by a reclassification of certain leased Airbus aircraft from finance lease to operating lease, following a re-negotiation of terms, which are now part of "Other equipment, factory and office equipment".

At December 31, 2003 and 2002, Property, plant and equipment include buildings, technical equipment and other equipment accounted for in fixed assets under finance lease agreements for net amounts of 122 M € and 146 M €, net of accumulated depreciation of 317 M € and 296 M €. The related depreciation expense for 2003 was 22 M € (2002: 23 M €).

For investment property recorded under property, plant and equipment refer to Note 29.

13. INVESTMENTS IN ASSOCIATES, OTHER INVESTMENTS AND LONG-TERM FINANCIAL ASSETS

The following table sets forth the composition of investments in associates, other investments and long-term financial assets:

(in millions of €)	December 31, 2003	December 31, 2002
Investments in associates	1,640	1,333
Other investments	560	810
Other financial assets	1,929	1,586
Thereof loans from aircraft financing	812	656
Thereof finance lease receivables from aircraft financing	898	749
Others	219	181
Total	**4,129**	**3,729**

Investments in associates are accounted for using the equity method. As of December 31, 2003 and 2002, investments in associates contain EADS' interest in Dassault Aviation (46.03% at December 31, 2003, 45.96% at December 31, 2002) of 1,633 M € and 1,333 M €. Since for the second half-year 2003 no specific financial information is available yet from Dassault Aviation, the net income of the second half-year 2002 according to IFRS has been used as the best estimate to report the current second half year's net income from this equity investment. The current year's equity investment from Dassault Aviation also includes a catch up of the prior year equity according to IFRS in the amount of 146 M € of which 77 M € relate to income from investments (see Note 9, "Financial result"). A list of major investments in associates and the proportion of ownership is included in Appendix "Information on principal investments".

Other investments comprise EADS' investment in various non-consolidated entities, the most significant being at December 31, 2003, investments in Embraer of 86 M € (2002: 75 M €) and in Patria of 42 M € (2002: 42 M €).

Other financial assets encompass mainly the Group's sales finance activities. Loans from aircraft financing are provided to customers to finance the sale of aircraft. These loans are long-term and normally have a maturity which is linked to the use of the aircraft by the customer. Finance lease receivables and loans from aircraft financing are part of the aircraft finance risk exposure, presented net of accumulated impairments of 431 M € and 444 M € at December 31, 2003 and 2002, respectively. These sales financing transactions are generally secured by the underlying aircraft used as collateral. (See Note 25, "Commitments and contingencies" for details on sales financing transactions).

The components of investment in finance leases are as follows:

(in millions of €)	December 31, 2003	December 31, 2002
Minimum lease payments receivables	1,262	1,114
Unearned finance income	(201)	(217)
Allowance	(163)	(148)
Total	**898**	**749**

Future minimum lease payments and investments in finance leases to be received are as follows (not discounted):

(in millions of €)	
not later than 2004	98
later than 2004 and not later than 2008	369
later than 2008	795
Total	**1,262**

Other financial assets include 219 M € and 181 M € of other loans as of December 31, 2003 and 2002, e.g. loans to employees.

Defeased bank deposits of 1,131 M € and 1,146 M € as of December 31, 2003 and 2002, respectively have been offset against financial liabilities. Prior year's figure has been adjusted accordingly (see Note 2: "Summary of significant accounting policies").

14. INVENTORIES

Inventories at December 31, 2003 and 2002 consist of the following:

(in millions of €)	December 31, 2003	December 31, 2002
Raw materials and manufacturing supplies	938	853
Work in progress	8,088	8,478
Finished goods, parts and products held for resale	1,804	1,525
Advance payments to suppliers	1,799	1,342
	12,629	**12,198**
Less: Advance payments received	(9,350)	(9,498)
Total	**3,279**	**2,700**

The decrease in work in progress of – 390 M € was caused by a reduction in Airbus and Eurocopter, partly compensated by an increase in Defence & Security Systems and Space. Finished goods, parts and products held for resale increased by 279 M €, mainly resulting from Airbus and Aeronautics.

Advance payments made increased by 457 M €, mainly caused by Defence & Security Systems and Airbus. Eliminating a currency effect of 948 M € in the advanced payments received, there is an increase of 800 M € mainly resulting from Airbus, Defence & Security Systems and Space.

15. TRADE RECEIVABLES

Trade receivables at December 31, 2003 and 2002 consist of the following:

(in millions of €)	December 31, 2003	December 31, 2002
Receivables from sales of goods and services	4,335	4,472
Allowance for doubtful accounts	(334)	(358)
Total	**4,001**	**4,114**

Trade receivables are classified as current assets. As of December 31, 2003 and 2002, respectively, 223 M € and 275 M € of trade receivables are not expected to be collected within one year.

In application of the percentage of completion method, as of December 31, 2003 an amount of 972 M € (in 2002: 593 M €) for construction contracts is included in the trade receivables.

16. OTHER RECEIVABLES AND OTHER ASSETS

Other receivables and other assets at December 31, 2003 and 2002 consist of the following:

(in millions of €)	December 31, 2003	December 31, 2002
Receivables from affiliated companies	171	247
Receivables from related companies	479	357
Positive fair values of derivative financial instruments	7,964	2,819
Capitalized settlement payments to German Goverment	315	355
Income tax claims	332	389
Others	1,019	1,089
Total	**10,280**	**5,256**

The capitalized settlement payments to the German Government is attributable to refundable advances which are amortized through the income statement at the delivery pace of the corresponding aircraft.

The residual amount in other receivables and other assets as of December 31, 2003 and 2002 (1,019 M € and 1,089 M €, respectively) includes Value Added Tax claims of 386 M € and 460 M € and positive market value of embedded derivatives within purchase contracts amounting to 96 M € and 26 M €, respectively.

Other receivables and other assets, which are expected to be collected within one year, amount to 4,664 M € as of December 31, 2003 (2,243 M € as of December 31, 2002) and are classified as current assets.

17. SECURITIES

The Group's security portfolio amounts to 468 M € and 799 M € as of December 31, 2003 and 2002, respectively. It includes only debt securities classified as "Available-for-Sale". To conform with the consolidated cash-flow statement, as of December 31, 2003 and in line with IAS 7, "Cash Flow Statements", EADS changed its presentation regarding cash and cash equivalents in the consolidated balance sheet. Short-term securities that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, which had previously been disclosed as part of the line item "Securities" in the consolidated balance sheet, have been reclassified to line item "Cash and cash equivalents" amounting to 5,555 M € and 3,698 M € as of December 31, 2003 and 2002, respectively.

18. SHAREHOLDERS' EQUITY

The change of shareholders' equity is provided in the Consolidated Statements of Changes in Shareholders' Equity.

The issued share capital of the Group consists of 812,885,182 and 811,198,500 shares as of December 31, 2003 and 2002 respectively. EADS' shares are exclusively ordinary shares with a par value of 1.00 €. The authorized share capital consists of 3,000,000,000 shares. In connection with the 2003 Employee Stock Ownership Plan (see Note 27, "Stock-based compensation"), EADS issued 1,686,682 shares (in 2002: 2,022,939), representing a nominal value of 1,686,682 € (in 2002: 2,022,939 €).

Authorized by the Shareholders' General Meeting of EADS held on May 17, 2002, the Board of Directors resolved on August 9 and October 11, 2002 to direct the Chief Executive Officers to implement a plan for the Company to repurchase up to a maximum of 10,100,000 of its own shares, representing 1.25% of the issued share capital of the Company. On July 12 and September 18, 2001, the Group's Board of Directors decided to launch a share buy back plan as authorized by the general meeting of shareholders on May 10, 2001. As a result, the Board of Directors directed the Chief Executive Officers to set up a buy back plan for 10,500,000 shares. In aggregate, the Company is entitled to repurchase up to 20.6 million of EADS shares, representing 2.54% of the Company's share capital.

The Shareholders' General Meeting of EADS held on May 6, 2003, renewed the authorisation given to the Board of Directors to repurchase shares of the Company within the limit of 5% of the Company's issued share capital. As of October 10, 2003, the Group's Board of Directors decided to set up and implement plans for the repurchase of up to 2,027,996 shares within the limits approved by the Shareholders' General Meeting of EADS.

As a result, EADS purchased in 2003 1,686,682 (in 2002: 10,241,252) of its own shares, resulting in an amount of 800,957,248 (in 2002: 800,957,248) shares outstanding at December 31, 2003. Prior to 2002, the Group had not repurchased any shares.

On May 6, 2003, the Shareholders' General Meeting also decided to pay a cash distribution related to the fiscal year 2002 for a gross amount of 0.30 € per share, which was paid on June 12, 2003.
Capital stock comprises the nominal amount of shares outstanding. The addition to capital stock represents the contribution of 1,686,682 € (in 2002: 2,022,939 €) by employees under the 2003 Employee Stock Ownership Plan. Reserves contain capital reserves, retained earnings as well as the net result for the period. Accumulated other comprehensive income consists of all amounts recognized directly in equity resulting from changes in fair value of financial instruments that are classified as available-for-sale or that form part of hedging relationships in effective cash-flow hedges as well as from currency translation adjustments of foreign entities. Treasury shares represent the amount paid for own shares held in treasury.

19. PROVISIONS

Provisions are comprised of the following:

(in millions of €)	December 31, 2003	December 31, 2002
Provision for retirement plans (see Note 19 b)	3,718	3,357
Provision for deferred compensation (see Note 19 a)	54	35
Subtotal	3,772	3,392
Financial instruments (see Note 19 c)	100	161
Other provisions (see Note 19 d)	4,854	4,695
Total	**8,726**	**8,248**

As of December 31, 2003 and 2002, respectively, 3,533 M € and 3,209 M € of retirement plans and similar obligations, 1 M € and 11 M € of financial instruments as well as 2,844 M € and 3,194 M € of other provisions mature after more than one year.

a) Provisions for deferred compensation

This amount represents obligations that arise if employees elect to convert all or part of their variable remuneration or bonus into an equivalent commitment for deferred compensation. Unlike retirement plans, deferred compensation is paid out in a lump sum upon the employee's retirement.

b) Provisions for retirement plans

When Group employees retire, they receive indemnities as stipulated in retirement agreements, in accordance with regulations and practices of the countries in which the Group operates. French law stipulates that employees are paid retirement indemnities on the basis of the length of service. In Germany, retirement indemnities are principally paid on the basis of salaries and seniority. Certain pension plans are based on salary earned in the last year or on an average of the last three years of employment while others are fixed plans depending on ranking (both salary level and position).

Actuarial assessments are regularly made to determine the amount of the Group's commitments with regard to retirement indemnities. This assessment includes an assumption concerning changes in salaries, retirement ages and long-term interest rates. It comprises all the expenses the Group will be required to pay to meet these commitments.

The weighted-average assumptions used in calculating the actuarial values of the retirement plans are as follows:

Assumptions in %	December 31, 2003	December 31, 2002	December 31, 2001
Discount rate	5.0 – 5.25	5.0 – 5.75	5.0 – 6.0
Rate of compensation increase	3.0	3.0	3.0 – 3.5
Inflation rate	1.25 – 2.0	1.75	2.0

Actuarial gains and losses of the current year are not recognized in profit/loss but added to the balance of unrecognized net actuarial gain or loss. If the accumulated amount of unrecognized net gains and losses as of the beginning of the year exceeds the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets of each respective legal entity, the excess is amortized through profit and loss on a straight line basis over the average remaining working lives of the employees participating in each plan.

The amount recorded as provision on the balance sheet can be derived as follows:

Change in defined benefit obligations

(in millions of €)	2003	2002	2001
Defined benefit obligations at beginning of year	4,287	3,880	3,512
Service cost	122	124	84
Interest cost	241	229	220
Plan amendments	14	0	(8)
Actuarial losses	9	201	191
Acquisitions and other	237	8	12
Benefits paid	(175)	(155)	(131)
Defined benefit obligations at end of year	**4,735**	**4,287**	**3,880**

Change in plan assets

(in millions of €)	2003	2002	2001
Fair value of plan assets at beginning of year	532	571	682
Actual return on plan assets	27	(35)	(70)
Contributions	16	42	1
Acquisitions and other	92	0	0
Benefits paid	(48)	(46)	(42)
Fair value of plan assets at end of year	**619**	**532**	**571**

(in millions of €)	December 31, 2003	December 31, 2002	December 31, 2001
Funded status (1)	4,116	3,755	3,309
Unrecognized actuarial net (losses)	(384)	(398)	(158)
Unrecognized past service cost	(14)	0	0
Net amount recognized as provision	**3,718**	**3,357**	**3,151**

(1) Difference between the defined benefit obligations and the fair value of plan assets at the end of the year.

The defined benefit obligation at end of the year is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. Actuarial losses of 384 M € at December 31, 2003 (in 2002 398 M €), result mainly from the decrease of the discount rate for pension obligations in Germany from 5.75% to 5.25%. The increase of the defined benefit obligation and plan assets based on "acquisitions and others" is mainly due to the purchase of additional 25% shares in Astrium.

The fair value of plan assets at end of the year comprises assets held by long-term employee benefit funds that exist solely to pay or fund employee benefits. Plan assets are not entirely exposed to fluctuations of stock markets, as only the smaller portion of plan assets is invested in such instruments.

On November 1, 2003 EADS has established a new pension scheme for Astrium UK. The defined benefit obligation of the new plan, calculated under the assumption that all employees choose to transfer their benefits, amounts to 117 M GBP. Plan assets are recorded at 65 M GBP resulting in a net liability of 52 M GBP which covers the maximum risk associated with the creation of the new plan. All amounts are translated into Euro using the EUR/GBP conversion rate as of December 31, 2003 (1 Euro = 0,7048 GBP). In connection with the purchase of the remaining 25% of Astrium from BAE, the liability of the UK pension plan is accounted for as a purchase price consideration, thereby leading to the capitalization of additional goodwill in the amount of 74 M € (52 GBP).

The net amount of 3,718 M € (2002: 3,357 M €) recognized as provision represents the amount recorded as provision on the balance sheet. The provision contains the funded status, adjusted by actuarial net gains/losses which do not have to be recognized because they do not meet the recognition criteria. Net actuarial gains and losses include both actuarial gains/losses on the defined benefit obligation and the difference between the actual and expected return on plan assets.

The components of the net periodic pension cost, included in "Income from operating activities", are as follows:

(in millions of €)	2003	2002	2001
Service cost	122	124	84
Interest cost	241	229	220
Expected return on plan assets	(33)	(42)	(47)
Net actuarial loss	29	8	0
Net periodic pension cost	**359**	**319**	**257**

The following table sets forth the development of the provision for pension obligations:

Change in provision for pension obligations in 2003

(in millions of €)	2003	2002
Provision for pension obligations at beginning of year	3,357	3,151
Net periodic pension cost	359	319
Contributions	(16)	(16)
Consumption (benefits paid)	(127)	(109)
Acquisitions and other	145	12
Provision for pension obligations at end of year	**3,718**	**3,357**

c) Financial instruments

The provision for financial instruments amounts to 100 M € as of December 31, 2003 (161 M € as of December 31, 2002) and depicts the negative fair market value mainly of interest rate swaps of 82 M € whereas prior year's provisions consisted of negative fair market values of foreign currency derivative instruments.

d) Other provisions

Movements in provisions during the year were as follows:

(in millions of €)	Balance at January 1, 2003	Exchange differences	Additions	Reclassification/ Changes in consolidated group	Used	Released	Balance at December 31, 2003
Aircraft financial risks	1,215	(222)	286	(1)	(145)	(112)	1,021
Outstanding costs	802	(1)	391	25	(260)	(74)	883
Contract losses	433	(2)	107	28	(102)	(25)	439
Tax provisions	255	0	267	4	(181)	(6)	339
Warranties	180	(6)	52	3	(46)	(23)	160
Litigations and claims	175	(13)	108	0	(6)	(44)	220
Personnel charges	322	0	158	7	(112)	(10)	365
Restructuring measures	300	(1)	304	16	(134)	(40)	445
Obligation from services and maintenance agreements	252	(40)	61	7	(57)	(34)	189
Other risks and charges	761	(17)	394	(78)	(164)	(103)	793
Total	**4,695**	**(302)**	**2,128**	**11**	**(1,207)**	**(471)**	**4,854**

The provision for aircraft financial risks fully covers, in line with the Group's policy for sales financing risk, the net exposure to aircraft financing of 583 M € (689 M € at December 31, 2002) and asset value risks of 438 M € (526 M € at December 31, 2002) related to Airbus and ATR (see Note 25 "Commitments and contingencies").

20. FINANCIAL LIABILITIES

EADS raised € 1.5 bn through two Eurobond issues under its EMTN (Euro Medium Term Note) programme. The first issue of 1 bn € carries a coupon of 4.625% which was swapped into variable rate of 3 M-Euribor + 1,02%. The second issue of 0.5 bn € carries a coupon of 5.5%.

(in millions of €)	December 31, 2003	December 31, 2002
Bonds	21	209
Liabilities to financial institutions	314	256
Liabilities to affiliated companies	90	166
Loans	84	80
Liabilities from finance leases	82	100
Others	387	374
Short-term financial liabilities (due within one year)	**978**	**1,185**
Bonds	1,640	44
thereof due in more than five years: 1,598 (December 31, 2002: 0)		
Liabilities to financial institutions	1,075	1,313
thereof due in more than five years: 570 (December 31, 2002: 810)		
Liabilities to affiliated companies	6	0
thereof due in more than five years: 3 (December 31, 2002: 0)		
Loans	799	968
thereof due in more than five years: 541 (December 31, 2002: 667)		
Liabilities from finance leases	269	320
thereof due in more than five years: 47 (December 31, 2002: 150)		
Long-term financial liabilities	**3,789**	**2,645**
Total	**4,767**	**3,830**

The effect of foreign exchange rate changes on financial liabilities amounts to – 433 M €, mainly caused by the weakening of the US Dollar in 2003.

Included in "Others" are financial liabilities against joint venture partners.
Non recourse Airbus financial liabilities amount to 679 M € (749 M € in 2002).
Defeased bank deposits for aircraft financing of 1,131 M € and 1,146 M € of December 31, 2003 and 2002 respectively have been offset against financial liabilities. Prior year's figure has been adjusted accordingly (see Note 2: "Summary of significant accounting policies").
An amount of 236 M € of refundable advances has been restructured from a risk sharing bank loan to a normal bank loan and was thus reclassified from other liabilities.

The aggregate amounts of financial liabilities maturing during the next five years and thereafter are as follows:

(in millions of €)	Financial liabilities
2004	978
2005	238
2006	392
2007	156
2008	244
Thereafter	2,759
Total	**4,767**

21. TRADE AND OTHER LIABILITIES

(in millions of €)	December 31, 2003	December 31, 2002
Trade liabilities	5,117	5,070
Other liabilities	11,318	10,246
Thereof customer advance payments	3,807	3,578
Thereof European Governments refundable advances	4,851	4,265
Thereof tax liabilities including wage tax	833	623
Thereof liabilities to affiliated companies	50	80
Thereof liabilities to related companies	31	85
Others	1,746	1,615
Total	**16,435**	**15,316**

Eliminating the currency effect, customer advance payments increased by 570 M €. The increase in European Governments refundable advances relates mostly to the A380-programme.

An amount of 236 M € has been restructured from a risk sharing bank loan to a normal bank loan and was thus reclassified to financial liabilities.

Maturities - Out of trade liabilities as of December 31, 2003, 46 M € refundable advances related mostly to the A380-programme (33 M € as of December 31, 2002) mature after more than one year. Included in "Other liabilities" are 4,135 M € (3,982 M € as of December 31, 2002) due within one year and 4,264 M € (3,715 M € as of December 31, 2002) maturing after more than five years.

22. DEFERRED INCOME

The main part of deferred income is related to sales of Airbus and ATR aircraft that include asset value guarantee commitments and that are accounted for as operating leases (2,009 M € and 2,273 M € as of December 31, 2003 and 2002, respectively).

NOTES TO THE CONSOLIDATED STATEMENTS OF CASH-FLOWS

23. CONSOLIDATED CASH-FLOW STATEMENT

As of December 31, 2003, EADS' cash position (stated as cash and cash equivalents in the consolidated statement of cash-flows) includes 273 M € (227 M €, 386 M € as of December 31, 2002 and 2001) representing the amount Airbus has deposited at BAES. Additionally included are 613 M €, 596 M € and 414 M € as of December 31, 2003, 2002 and 2001, respectively, which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAES and Finmeccanica and are available upon demand.

For the December 31, 2002 Consolidated Balance Sheet's and the 2002 Consolidated Statement of Cash-Flow's presentation, EADS considered as part of the cash position (being cash and cash equivalents and certain qualifying

securities), inter alia, an amount of 160 M € related to Astrium. Due to the proportionate consolidation method for Astrium, this amount corresponds to cash advances made to Astrium for which EADS could claim the reimbursement from BAES, in accordance with the Astrium shareholders' agreement.

The following charts provide details on acquisitions (resulting in additional assets and liabilities acquired) and disposals of subsidiaries and business units:

(in millions of €)	December 31, 2003
Total selling (purchase) price, net	32
thereof received by cash and cash equivalents	*32*
Cash and cash equivalents included in the (disposed) / acquired subsidiaries or other business units, net	(3)
Cash Flow from net disposals, net of cash	**29**

Included in the aggregate net selling (purchase) price received in 2003 of 32 M € is the acquisition of shares in ASL Lemwerder and of 25% of Astrium for no net cash consideration and the selling price received for the disposals mainly of Celerg (13 M €) and RACOM (19 M €).

(in millions of €)	December 31, 2003
Property, plant and equipment	62
Financial assets	5
Inventories (net)	115
Trade receivables	126
Cash and cash equivalent	3
Assets	**311**
Provisions	**(235)**
Trade liabilities	(143)
Financial liabilities	(109)
Other assets and liabilities	(14)
Liabilities	**(501)**
Fair value of net assets	**(190)**
Goodwill arising on acquisitions	164
Less own cash and cash equivalent of (sold) / purchased subsidiaries	(3)
Cash Flow from net disposals, net of cash	**(29)**

Besides the above detailed acquisitions and disposals, there have been additional cash investments in the following already fully consolidated subsidiaries; Dornier (62 M €), Aeronautica Industrial (12 M €), EADS Telecom France (10 M €) and Gesellschaft für Flugzieldarstellung (7 M €).

The line "Results on disposal of fixed assets/ businesses and result of associates (equity method)" in the consolidated cash flow statement includes the result of associated companies (246 M €, 134 M € and 22 M € in 2003, 2002 and 2001, respectively).

The effect of foreign exchange rate changes on cash and cash equivalents amounts to (– 83 M €), mainly caused by the weakening of the US Dollar in 2003.

OTHER NOTES

24. LITIGATION AND CLAIMS

Various legal actions, governmental investigations, proceedings and other claims are pending or may be instituted or asserted in the future against the Group. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. EADS believes that it has made adequate provisions to cover current or contemplated litigation risks. It is reasonably possible that the final resolution of some of these matters may require the Group to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. The term "reasonably possible" is used herein to mean that the chance of a future transaction or event occurring is more than remote but less than likely. Although the final resolution of any such matters could have an effect on the Group's consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve would be recorded, the Group believes that any such potential adjustment should not materially affect its consolidated financial statements.

EADS is not aware of any other exceptional items or pending or threatened legal or arbitration proceedings that may have, or may have had in a recent period, a material adverse effect on its financial position, its activities, its results or its group, except as stated below. EADS (more specifically, DADC and Dornier GmbH) is and was a party to several disputes and arbitration proceedings with the Dornier family shareholders, minority shareholders of Dornier GmbH. These disputes concerned the validity of various resolutions of shareholders' meetings of Dornier GmbH primarily relating to contributions of Dornier activities and assets. These contributions were subject to two arbitration proceedings, which were successfully completed recently with the decisions being made in favour of EADS/Dornier GmbH. Also, the validity of some of these contributions was confirmed by the regional court of appeals in Stuttgart. However, other proceedings, in particular regarding the contribution of shares in Dornier Luftfahrt GmbH by Dornier to Fairchild Dornier Luftfahrt Beteiligungs GmbH, are still pending. EADS and Dornier GmbH expect that the remaining proceedings will be decided in their favour, as was the case with the recent decisions.

At the end of 2002, a request for arbitration was filed against a subsidiary of EADS involved in the supply of equipments under a commercial contract that was completed several years ago. EADS considers to have strong defences, both procedural and of substance, to oppose the claim. At this early stage of the procedure the financial risk cannot be assessed. In June 2003, EADS was notified that the arbitration procedure was suspended at the request of the claimant.

EADS (more specifically Euromissile GIE) has been successful at the end of 2002 in an arbitration proceeding initiated by Thales and has been awarded damages on the basis of its counterclaim for which the principal amounts to Euro 108 million. Thales failed through summary proceedings to stop the immediate enforceability of the arbitration award and the sums were paid to Euromissile on February 17, 2003. Thales has filed an appeal for annulment of the arbitration decision. Briefs are being exchanged between the parties and a decision of the Paris Court of Appeal may be expected by the end of the year 2004. Therefore, the payment was neutralised in 2003 in provisions for litigations and claims.

25. COMMITMENTS AND CONTINGENCIES

Commitments and contingent liabilities

Sales financing - In relation to its Airbus and ATR activities, EADS is committing itself in sales financing transactions with selected customers. Sales financing transactions are generally collateralized by the underlying aircraft. Additionally, Airbus and ATR benefit from protective covenants and from security packages tailored according to the perceived risk and the legal environment. EADS believes that the estimated fair value of the aircraft securing such commitments will substantially offset any potential losses from the commitments. Any remaining difference between the amount of financing commitments given and the collateral value of the aircraft financed is provided for as an impairment to the relating asset, if assignable, or as a provision for aircraft financial risk. The basis for this write-down is a risk-pricing-model, which is applied at every closing to closely monitor the remaining value of the aircraft.

Depending on which party assumes the risks and rewards of ownership of a financed aircraft, the assets relating to sales financing are accounted for on the balance sheet either as (i) an operating lease (see Note 12, "Property, plant and equipment") or (ii) a loan from aircraft financing or (iii) a finance lease receivable (see Note 13, "Investments in associates, other investments and long-term financial assets") or (iv) in inventory. As of December 31, 2003, related accumulated impairment amounts to 590 M € for operating lease, 431 M € for loans and finance lease and 27 M € for inventories. 38 M € are recorded as part of provisions for aircraft financial risk (see Note 19d, "Other provisions").

Certain sales financing transactions include the sale and lease back of the aircraft with a third party lessor under operating lease. Unless the Group has sold down the relating operating lease commitments to third parties, which assume liability for the payments, it is exposed to future lease payments. Future nominal **operating lease payments** that result from aircraft sales financing transactions are recorded off balance sheet and are scheduled to be paid as follows:

(in millions of €)	
not later than 2004	203
later than 2004 and not later than 2008	861
later than 2008	1,216
Total	**2,280**
Of which commitments where the transaction has been sold to third parties	(1,204)
Total aircraft lease commitments where EADS bears the risk (not discounted)	**1,076**

Total aircraft lease commitments of 2,280 M € as of December 31, 2003, arise from aircraft head-leases and are typically backed by corresponding sublease income from customers with an amount of 1,561 M €. A large part of these lease commitments (1,204 M € as of December 31, 2003) arises from transactions that were sold down to third parties, which assume liability for the payments. The nominal value of future aircraft lease commitments (after these sell downs) has decreased from 1,452 M € at December 31, 2002 to 1,076 M €, mainly due to the weakening of the US Dollar (– 246 M €).

EADS determines its gross exposure to such operating leases as the present value of the related payment streams. The difference between gross exposure and the estimated value of underlying aircraft used as collateral, the net exposure, is provided for in full with an amount of 545 M € as of December 31, 2003, as part of the provision for aircraft financial risk (see Note 19d, "Other provisions").

As of December 31, 2003 and 2002, the total consolidated Commercial Aviation Sales Financing Exposure is as follows (Airbus 100% and ATR 50%):

(in millions of €)	December 31, 2003	December 31, 2002
Total gross exposure	4,225	4,191
Estimated fair value of collateral (aircraft)	(2,594)	(2,599)
Net exposure (fully provided for)	**1,631**	**1,592**

Detail of provisions / accumulated impairments are as follows:

(in millions of €)	December 31, 2003	December 31, 2002
Accumulated impairment on operating leases	590	459
Accumulated impairment on loans from aircraft financing and finance leases	431	444
Accumulated impairment on inventories	27	0
Provisions for aircraft financial risk (on balance sheet)	38	72
Provisions for aircraft financial risk (commitment off balance sheet)	545	617
Total provisions / accumulated impairments for sales financing exposure	**1,631**	**1,592**

Asset value guarantees - Certain sales contracts may include the obligation of an asset value guarantee whereby Airbus or ATR guarantee a portion of the value of an aircraft at a specific date after its delivery. Management considers the financial risks associated with such guarantees to be manageable. Three factors contribute to this assessment: (i) the guarantee only covers a tranche of the estimated future value of the aircraft, and its level is considered prudent in comparison to the estimated future value of each aircraft; (ii) the asset value guarantee related exposure is diversified over a large number of aircraft and customers; and (iii) the exercise dates of outstanding asset value guarantees are distributed through 2018. If the present value of the guarantee given exeeds 10% of the sales price of the aircraft, the sale of the underlying aircraft is accounted for as an operating lease (see Note 12 "Property, plant and equipment" and Note 22 "Deferred income"). In addition, EADS is contingently liable in case asset value guarantees with less than 10% are provided to customers as part of aircraft sales. Counter guarantees are negotiated with third parties and reduce the risk to which the group is exposed. As of December 31, 2003 the nominal value of asset value guarantees provided to airlines, that do not exeed the 10% criteria, amount to 733 M €, excluding 408 M € where the risk is considered to be remote. In many cases the risk is limited to a specific portion of the residual value of the aircraft. The present value of the risk inherent to the given asset value guarantees where a settlement is being considered as probable is fully provided for and included in the total amount of provisions for asset value risks of 438 M € (see Note 19d: "Other provisions"). This provision covers a potential expected shortfall between the estimated value of the aircraft of the date upon which the guarantee can be exercised and the value guaranteed on a transaction basis taking counter guarantees into account.

Because exercise dates for asset value guarantees are on average in the 10th year following aircraft delivery, asset value guarantees issued in 2003 will generally not be exercisable prior to 2013, and, therefore, an increase in near-term exposure is not expected.

Despite the underlying collateral, if Airbus should be unable to honour its obligations under sales financing transactions and asset value guarantees, certain EADS and BAES group companies retain joint and several liability for sales financing exposure incurred by Airbus prior to January 1, 2001. EADS' exposure to liabilities incurred by Airbus following January 1, 2001 is limited by its status as a shareholder

in Airbus S.A.S. With respect to ATR, each shareholder is jointly and severally liable to third parties without limitation. Amongst the shareholders, the liability is limited to each partner's proportionate share.

While **backstop commitments** to provide financing related to orders on Airbus' and ATR's backlog are also given, such commitments are not considered to be part of gross exposure until the financing is in place, which occurs when the aircraft is delivered. This is due to the fact that (i) past experience suggests it is unlikely that all such proposed financings actually will be implemented, (ii) until the aircraft is delivered, Airbus or ATR retain the asset and do not incur an unusual risk in relation thereto, and (iii) third parties may participate in the financing. In order to mitigate Airbus and ATR exposure to unacceptable credits, such commitments typically contain financial conditions which guaranteed parties must satisfy in order to benefit therefrom.

Pension commitments – EADS has several common investments with BAES, of which the most significant in terms of employees are Airbus and MBDA. In respect of each investment, for so long as BAES remains a shareholder, UK employees may stay in the BAES pensions schemes, which currently qualify as defined benefit plans. BAES has indicated a shortfall in post retirement pension assets amounting to 2,099 M GBP when compared with the respective liabilities which would have been recognised in BAES' books had the U.K. accounting standard FRS 17 already been implemented.

As participants in the BAES schemes, EADS investments are potentially affected by any shortfall of BAES schemes. However, the agreements between EADS and BAES have the effect of capping the contributions that the investment has to make to the pension scheme for a certain period of time (e.g. until 2011 for Airbus). Any additional contribution would be paid by BAES. EADS is therefore not exposed to increased contribution payments resulting from the pension underfunding during the period of the contribution caps. At present, EADS has only limited information about how the underfunding could impact the investments after the period of contribution caps has expired. Consequently, EADS expenses the contributions made to the pension scheme as if the plans were defined contribution plans.

Other commitments – Other commitments comprise contractual guarantees and performance bonds to certain customers as well as commitments for future capital expenditures.

Future nominal **operating lease payments** (for EADS as a lessee) for rental and lease agreements (not relating to aircraft sales financing) amount to 940 M € as of December 31, 2003, and relate mainly to procurement operations (e.g., facility leases, car rentals). Maturities are as follows:

(in millions of €)	
not later than 2004	91
later than 2004 and not later than 2008	288
later than 2008	561
Total	**940**

26. INFORMATION ABOUT FINANCIAL INSTRUMENTS

a) Financial risk management

By the nature of the activities carried out, EADS is exposed to a variety of financial risks, especially foreign currency exchange rate risks and interest rate risks, as explained below. The management and limitation of the foreign exchange currency risks at EADS is generally carried out by a central treasury department at EADS Headquarters under policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks is in the responsibility of established treasury committees and the Group's Divisions and Business Units.

Market risk

Currency risk – EADS manages a long-term hedge portfolio with a maturity of several years covering its net exposure to US Dollar sales, mainly from the activities of Airbus. This hedge portfolio covers the vast majority of the Group's highly probable transactions.

EADS' revenues are mainly denominated in US Dollars, whereas a major portion of its costs is incurred in Euros and to a smaller extent in GBP. Consequently, to the extent that EADS does not use financial instruments to cover its net current and future foreign currency exchange rate exposure, its profits would be affected by changes in the Euro-US Dollar exchange rate. As the Group intends to generate profits only from its operations and not through speculation on foreign currency exchange rate movements, EADS uses hedging strategies to manage and minimize the impact of exchange rate fluctuations on these profits.

For financial reporting purposes, EADS designates a portion of the underlying items as the hedged position to cover its net US Dollar exposure, as appropriate. As hedging instruments, EADS primarily uses foreign currency forwards and option contracts.

EADS endeavours to hedge the majority of its exposure based on firm commitments and forecasted transactions. For products such as aircraft, EADS typically hedges forecasted sales in US Dollar for the following year up to 2011. The hedged items are defined as the first forecasted highly probable future cash inflows for a given month based upon final payments at delivery. The amount of the first flows is decided by a treasury committee and typically covers up to 100% of the equivalent of the net US Dollar exposure. For EADS, a forecasted transaction is regarded as highly probable if the future delivery is included in the internally audited order book or is very likely to materialize in view of contractual evidence. The coverage ratio may be adjusted to take into account macroeconomic movements affecting the spot and interest rates, as applicable.

For project related business EADS generally hedges 100% based on specific flows arising out of firm and individual contracts. Hedging is implemented on a individual project basis, i.e. a new contract.

Interest rate risk – The Group uses an asset and liability management approach with the objective to limit its interest rate risk. The Group undertakes to match the risk profile of its assets with a corresponding liability structure. The net interest rate exposure is managed through several types of instruments in order to minimize risks and financial impacts. Therefore, the Group uses interest rates derivatives for hedging purposes.

Hedging instruments that are specifically designated to debt instruments have at the maximum the same nominal amounts as well as the same maturity dates compared to the hedged item. Regarding cash, EADS is only investing in short-term instruments and / or instruments that are related to a floating interest index in order to further minimize any interest risk in its cash and securities portfolio.

Price Risk – The cash and cash equivalents and securities portfolio of the Group is invested in non-speculative financial instruments, mostly highly liquid, such as certificates of deposits, overnight deposits, commercial papers and other money market instruments which generally are on short term and subject to only an insignificant price risk. Therefore, the Group assesses its exposure towards price risk as minimal.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents at any time to meet its present and future commitments. This is safeguarded by the reported total amount of the Group's cash and cash equivalents, which is further supported by a substantial amount of unused committed credit facilities (2.85 bn € as December 31, 2003) and a 700 M € credit line from the European Investment Bank (EIB). On a daily basis, EADS invests any surplus cash in - non-speculative highly liquid financial instruments, such as certificates of deposits, overnight deposits, commercial papers and other money market instruments which are generally short term.

Credit risk

EADS is exposed to credit risk to the extent of non-performance by its counterparts (e.g., airlines) with regards to e.g. financial instruments. However, the Group has policies in place to avoid concentrations of credit risk and to ensure that credit risk is limited. Sales of products and services are made to customers with an appropriate credit history. Cash transactions and derivative counterparts are limited to high credit quality financial institutions. EADS has set up a credit limit system to actively manage and limit its credit risk exposure. This limit system assigns maximum exposure lines to counterparts of financial transactions, based at a minimum on their credit ratings as published by Standard & Poors, Moody's and Fitch IBCA. The respective limits are regularly monitored and updated.

In order to support product sales, primarily at Airbus and ATR, EADS may agree to participate in the financing of customers, on a case-by-case basis, directly or through guarantees provided to third parties. In determining the amount and terms of the financing transaction, Airbus and ATR take into account the airline's credit rating as well as risk factors specific to the intended operating environment of the aircraft and its expected future value. Market yields and current banking practices also serve to benchmark the financing terms offered to customers, including price.

b) Notional amounts

The contract or notional amounts of derivative financial instruments shown below do not necessarily represent amounts exchanged by the parties and, thus, are not necessarily a measure for the exposure of the Group through its use of derivatives.

The notional amounts of foreign exchange derivative financial instruments are as follows, specified by year of expected maturity:

Year ended December 31, 2003	Remaining period			
(in millions of €)	not exceeding 1 year	1 year up to 5 years	more than 5 years	Total
Foreign Exchange Contracts:				
Net forward sales contracts	7,104	22,581	3,604	33,289
Purchased USD put options	285	0	0	285
USD swap contracts	1,800	0	0	1,800

Year ended December 31, 2002	Remaining period			
(in millions of €)	not exceeding 1 year	1 year up to 5 years	more than 5 years	Total
Foreign Exchange Contracts:				
Net forward sales contracts	10,852	23,408	6,122	40,382
Purchased put options	1,094	343	0	1,437
Written call options	1,094	343	0	1,437

The notional amounts of interest rate contracts are as follows, specified by year of expected maturity:

Year ended December 31, 2003	Remaining period			
(in millions of €)	not exceeding 1 year	1 year up to 5 years	more than 5 years	Total
Interest Rate Contracts:	0	802	2,964	3,766

c) Fair value of financial instruments

The fair value of a financial instrument is the price at which one party would assume the rights and/or duties of another party. Fair values of financial instruments have been determined with reference to available market information at the balance sheet date and the valuation methodologies discussed below. Considering the variability of their value-determining factors and the volume of financial instruments, the fair values presented herein may not be indicative of the amounts that the Group could realize in a current market exchange.

The following interest rate curves are used in the determination of the fair value in respect of the financial instruments as of December 31,2003:

(Interest rate in %)	EUR	USD	GBP
6 months	2.19	1.18	4.16
1 year	2.33	1.42	4.35
5 years	3.73	3.77	4.95
10 years	4.52	4.90	5.04

The carrying amounts and fair values of the Group's financial instruments are as follows:

	December 31, 2003		December 31, 2002	
(in millions of €)	Carrying amount	Fair value	Carrying amount	Fair value
Balance Sheet Treasury Instruments				
Assets:				
Other investments and long-term financial assets	2,489	2,489	2,396	2,396
Securities	468	468	799	799
Cash and cash equivalents	7,404	7,404	5,401	5,401
Liabilities:				
Financial liabilities	4,767	4,776	3,830	3,830
Derivative Financial Instruments				
Currency contracts with positive fair values	7,932	7,932	2,804	2,804
Currency contracts with negative fair values	(18)	(18)	(161)	(161)
Interest rate contracts with positive fair values	32	32	15	15
Interest rate contracts with negative fair values	(82)	(82)	0	0

The fair value gains and losses at December 31, 2003 on open currency contracts which hedge future foreign currency sales will be transferred from the accumulated other comprehensive income to the income statement when the related transactions occur, at various dates between the balance sheet date and 8 years from the balance sheet date. Gains and losses from valuation of these instruments in 2003 (net of deferred taxes of 2,285 M €) amount to 4,068 M €. The amount that has been reclassified from other comprehensive income to income statement in 2003 is 945 M € (net of deferred taxes of 526 M €). As at December 31, 2003, a net unrealised gain for derivative financial instruments of 2,524 M € (net of deferred tax of 1,424 M €), was recognized in equity excluding minority interests.

Financial Assets and Liabilities – Fair values are based on estimates using various valuations techniques, such as present value of future cash flows. However, methods and assumptions followed to disclose data presented herein are inherently judgmental and involve various limitations like estimates as of December 31, 2003 and 2002, which are not necessarily indicative of the amounts that the Company would record upon further disposal / termination of the financial instruments.

The methodologies used are as follows:

Short-term investments, cash, short-term loans, suppliers – The carrying amounts reflected in the annual accounts are reasonable estimates of fair value because of the relatively short period of time between the origination of the instruments and its expected realization.

Long-term debt; short-term debt – Neither long term nor short term debt is classified as liabilities held for trading.

Securities – The fair value of securities included in available-for-sale investments is estimated by reference to their quoted market price at the balance sheet date. If a quoted market price is not available, fair value is determined on the basis of generally accepted valuation methods on the basis of market information available at the reporting date.

Currency and Interest Rate Contracts – The fair value of these instruments is the estimated amount that the Company would receive or pay to settle the related agreements as of December 31, 2003 and 2002.

27. STOCK-BASED COMPENSATION

a) Stock Option Plans

Based on the authorisation given to it by the shareholders' meetings (see dates below), the Group's Board of Directors approved (see dates below) stock option plans in 2003, 2002, 2001 and 2000.
These plans provide to the members of the Executive Committee as well as to the Group's senior management the grant of options for the purchase of EADS shares.

For the 2003 stock option plan, analogous to all of EADS' previous existing stock option plans, the granted exercise price was exceeding the share price at grant date. Therefore, no compensation expense has been recognized.

The principal characteristics of these options are summarized in the tables below:

	First Tranche	Second Tranche	Third Tranche
Date of shareholders' meeting	May 24, 2000	May 24, 2000	May 10, 2001
Date of Board of Director meeting (grant date)	May 26, 2000	October 26, 2000	July 12, 2001
Number of options granted	5,324,884	240,000	8,524,250
Number of options outstanding	5,060,400	240,000	7,818,725
Total number of eligible employees	**850**	**34**	**1,650**
Exercise Date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options; moreover, the options may not be exercised during a period of 3 weeks preceding each annual general meeting of share-holders or the date of announcement of annual or semi-annual results or quarterly figures.		
Expiry date	Tenth anniversary of the date of the grant of the option		
Conversion Right	One option for one share		
Vested	100% vested	100% vested	50% vested
Exercise Price	Euro 20.90	Euro 20.90	Euro 24.66
Exercise Price Conditions	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant
Number of exercised options	0	0	0

	Fourth Tranche	Fifth Tranche
Date of shareholders' meeting	May 10, 2001	May 6, 2003
Date of Board of Director meeting (grant date)	August 9, 2002	October 10, 2003
Number of options granted	7,276,700	7,563,980
Number of options outstanding	7,205,975	7,563,980
Total number of eligible employees	1,562	1,491
Exercise date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options; moreover, the options may not be exercised during a period of 3 weeks preceding each annual general meeting of shareholders or the date of announcement of annual or semi-annual results or quarterly figures.	
Expiry date	Tenth anniversary of the date of the grant of the option	
Conversion Right	One option for one share	
Vested	0%	0%
Exercise Price	Euro 16.96	Euro 15.65
Exercise Price Conditions	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant
Number of exercised options	0	0

The following table summarizes the development of the number of stock options:

First & Second Tranch	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31,
2000	5,564,884	–	–	(189,484)	5,375,400
2001	–	5,375,400	–	–	5,375,400
2002	–	5,375,400	–	–	5,375,400
2003	–	5,375,400	–	(75,000)	5,300,400

Third Tranch	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31,
2001	8,524,250	–	–	(597,825)	7,926,425
2002	–	7,926,425	–	–	7,926,425
2003	–	7,926,425	–	(107,700)	7,818,725

Fourth Tranch	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31,
2002	7,276,700	–	–	(600)	7,276,100
2003	–	7,276,100	–	(70,125)	7,205,975

Fifth Tranch	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31,
2003	7,563,980	–	–	–	7,563,980
Total	**28,929,814**	**20,577,925**	**–**	**(1,040,734)**	**27,889,080**

b) Employee Stock Ownership Plan (ESOP)

In 2003, the Board of Directors approved an additional ESOP following three ESOPs established in 2002, 2001 and in 2000. For the 2003 ESOP, eligible employees were able to purchase a maximum of 500 shares per employee of previously unissued shares. The offer was broken down into two tranches which were available for all employees to choose. The subscription price for tranche A was 12.48 €, calculated as a discount of 14.5% from the lowest market price on the Paris stock exchange on October 10, 2003 (fixed at 14.60 €), the day the Board of Directors granted the right to purchase shares within the ESOP 2003. The subscription price for tranche B was the higher of the subscription price for tranche A or 80% of the average opening market price for EADS shares on the Paris stock exchange during the twenty stock market days preceding October 10, 2003, resulting in a subscription price of 12,48 €.

During a lockup period of at least one year under tranche A or five years under tranche B, employees are restricted from selling the shares, but have the right to receive all dividends paid as well as have the ability to vote at the annual shareholder meetings. EADS sold 1,686,682 ordinary shares with a nominal value of 1.00 € under both tranches. No compensation expense was recognized in connection with the ESOP 2003.

28. RELATED PARTY TRANSACTIONS

Related parties - The Group has entered into various transactions with related companies in 2003, 2002 and 2001 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.

Remuneration - Remuneration and related costs of the members of the Board of Directors and former Directors amount to 8.01 M € as of December 31, 2003 (2002: 8.39 M €). Since the exercise price for stock options granted to Directors exceeded the share price at grant date, this amount does not comprise compensation cost for stock-based compensation. EADS has not provided any loans to/ advances to/ guarantees on behalf of (retired) Directors. Reference is made to Note 27, "Stock-based compensation", in this document and to Note 9, "Remuneration", of the Notes to EADS N.V. Financial Statements.

29. INVESTMENT PROPERTY

The Group owns investment property accounted for under property, plant and equipment, mainly contributed by Dasa to EADS, that is leased to third parties. The investment property contributed by Dasa was recorded at fair value as of July 1, 2000. For the purposes of IAS 40, "Investment property", disclosure requirements, EADS developed the fair values of investment property based on the values on the opening balance sheet of EADS.

The fair values have been determined using official guideline numbers for land and insured values as well as values reconciled from rental income for buildings.

The determination of fair values is mainly supported by market evidence and was performed with regard to the fair values as of July 1, 2000 by a registered independent valuer having an appropriate recognized professional qualification and recent experience in the location and category of the property being valued. As there have only been very minor changes since that date, the Group has not used an independent certifier since then.

Buildings held as investment property are depreciated on a linear basis over their useful life of 20 years:

(in millions of €)	Historical cost	Accumulated depreciaton December 31, 2002	Book value December31, 2002	Depeciation Amortisation	Disposals	Accumulated depreciation December 31, 2003	Net at December 31, 2003
Book value of Investment Property	283	(31)	252	(8)	(3)	(42)	241

As of December 31, 2003, the fair value of the Group's investment property amounts to 258 M € (2002: 258 M €). Related rental income in 2003 is 12 M € (2002: 13 M €, 2001: 12 M €) with direct operating expenses arising from investment property that generated rental income amounting to 12 M € (2002: 10 M €, 2001 : 7 M €).

30. INTEREST IN JOINT VENTURES

The Group's principal investments in joint ventures and the proportion of ownership are included in Appendix "Information on principal investments". Joint ventures are consolidated for using the proportionate method. Due to the purchase of the remaining shares of Astrium N.V. in 2003, the company and its subsidiaries are consolidated fully in 2003 (see Note 4 "Acquisitions and disposals").

The following amounts represent the Group's aggregate share of the assets and liabilities and income and expenses of the joint ventures:

	2003	2002
Fixed assets	572	1,073
Non-fixed assets	1,745	2,909
Provisions	176	661
Liabilities	1,599	2,937
Revenues	1,471	2,556
Profit (loss) from ordinary activities	88	(203)
Net income (loss)	76	(212)

31. EARNINGS PER SHARE

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

	2003	2002	2001
Net income / (loss) attributable to shareholders	152 M €	(299) M €	1,372 M €
Weighted average number of ordinary shares	800,957,248	804,116,877	807,295,879
Basic earnings per share	0.19 €	(0.37) €	1.70 €

Diluted earnings per share – 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 exceeded 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 is the same for both basic and diluted earnings per share.

	2003	2002	2001
Net income/ (loss) attributable to shareholders	152 M €	(299) M €	1,372 M €
Weighted average number of ordinary shares	800,957,248	804,116,877	807,295,879
Diluted earnings per share	0.19 €	(0.37) €	1.70 €

32. NUMBER OF EMPLOYEES

The number of employees at December 31, 2003 is 109,135 as compared to 103,967 at December 31, 2002.

33. EVENTS AFTER THE BALANCE SHEET DATE

No events have taken place after December 31, 2003 that require disclosure. The financial statements have been authorized for issuance by the Board of Directors on March 5, 2004.

	2003	%	2002	%	Company	Head office
Airbus						
	F	80.00	F	80.00	128829 Canada Inc.	Canada
	F	80.00	F	80.00	A 320 Financing Limited	Ireland
	F	80.00	F	80.00	AA Credit Aircraft Leasing Limited	Isle Of Man
	F	80.00	F	80.00	AFC (USA) 1 Inc.	USA
	F	80.00	F	80.00	AFS (Cayman) 11 Limited	Cayman Isle
	F	80.00	F	80.00	AFS (Cayman) Ltd.	Cayman Isle
	F	80.00	F	80.00	AFS Cayman Aerospace Limited	Cayman Isle
	F	80.00	F	80.00	AI Leasing Inc.	USA
	F	80.00	F	80.00	AI Participations S.A.R.L.	Blagnac (France)
	F	80.00	F	80.00	AIFI LLC	Isle Of Man
	F	80.00	F	80.00	AIFS (Cayman) Ltd.	Cayman Isle
	F	80.00	F	80.00	AIFS Cayman Liquidity Ltd.	Cayman Isle
	F	80.00	F	80.00	AIFS Leasing Company Limited	Ireland
	F	80.00	F	80.00	AINA Inc.	USA
	F	80.00	F	80.00	Airbus China Limited	Hong-Kong
	F	80.00	F	80.00	Airbus Deutschland GmbH	Hamburg (Germany)
	F	80.00	F	80.00	Airbus Espana SL	Madrid (Spain)
	F	80.00	F	80.00	Airbus Finance Company Ltd.	Dublin (Ireland)
	F	80.00	F	80.00	Airbus France S.A.S	Toulouse (France)
	F	80.00	F	80.00	Airbus Holding SA	France
	F	80.00	F	80.00	Airbus Industrie Financial Service Holdings B.V.	Netherlands
	F	80.00	F	80.00	Airbus Industrie Financial Service Holdings Ltd.	Ireland
	F	80.00	F	80.00	Airbus Industrie Financial Service Ltd.	Ireland
	F	80.00	F	80.00	Airbus Industrie G.I.E.	Blagnac (France)
	F	80.00	F	80.00	Airbus Invest	Toulouse (France)
	F	80.00	F	80.00	Airbus North American Holdings Inc. (AINA)	USA
	F	80.00	F	80.00	Airbus S.A.S	Toulouse (France)
	F	80.00	F	80.00	Airbus Service Company Inc. (ASCO)	USA
	F	80.00	F	80.00	Airbus Transport International S.N.C. (ATI)	Blagnac (France)
	F	80.00	F	80.00	Airbus UK Limited	UK
	F	80.00	F	80.00	Aircabin GmbH	Laupheim (Germany)
	E	16.00	E	16.00	Alexandra Bail G.I.E	France
	F	80.00	F	80.00	Avaio Aerospace Limited	Ireland
	F	80.00	F	80.00	Avaio Aviation Limited	Ireland
	F	80.00	F	80.00	Avaio International Limited	Ireland
	F	80.00	F	80.00	Avaio Leasing Limited	Ireland
	F	80.00	F	80.00	Avaio Limited	Isle Of Man
	F	80.00	F	80.00	Aviateur Aerospace Limited	Ireland
	F	80.00	F	80.00	Aviateur Eastern Limited	Ireland
	F	80.00	F	80.00	Aviateur Finance Limited	Ireland
	F	80.00	F	80.00	Aviateur International Limited	Ireland
	F	80.00	F	80.00	Aviateur Leasing Limited	Ireland
	F	80.00	F	80.00	Aviateur Limited	Ireland

F: Fully consolidated - P: Proportionate - E: Equity method

2003	%	2002	%	Company	Head office
F	80.00	F	80.00	Avion Finance Limited	Ireland
F	80.00	F	80.00	AVSA SARL	Blagnac (France)
F	80.00	F	80.00	KID-Systeme GmbH	Buxtehude (Germany)
F	80.00	F	80.00	Norbus	USA
F	80.00	F	80.00	Star Real Estate SAS	Boulogne (France)
F	80.00	F	80.00	Total Airline Service Company	United Arab Emirates
F	80.00	F	80.00	Wichita	USA
Additionally consolidated are 38 SPEs.					
Defence & Security Systems					
F	100.00			Aircraft Services Lemwerder GmbH	Lemwerder (Germany)
P	37.50	P	37.50	ALKAN	Valenton (France)
F	100.00			Apsys	France
F	99.99	F	99.99	ARC	CA, USA
F	55.00	F	55.00	Aviation Defense Service S.A.	Saint-Gilles (France)
P	50.00	P	50.00	Bayern-Chemie Gesellschaft für flugchemische Antriebe mbH	Aschau/Inn (Germany)
F	100.00	F	100.00	Cogent Defence & Security Networks	Newport, Wales (UK)
F	100.00	F	100.00	Dornier Flugzeugwerft GmbH	Manching (Germany)
F	93.58	F	75.89	Dornier Services GmbH	Friedrichshafen (Germany)
F	93.58	F	75.89	Dornier Verteidigung und Zivile Systeme	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS CASA Military Aircraft	Madrid (Spain)
F	100.00	F	100.00	EADS Deutschland GmbH - Military Aircraft TB 51	Munich (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH – VA (Restaktivitäten)	Unterschleißheim (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH – Verteidigung und Zivile Systeme	Ulm (Germany)
E	25.00	F	100.00	EADS Radio Communication Systems GmbH & Co. KG	Ulm (Germany)
F	100.00	F	100.00	EADS Services	Boulogne (France)
F	100.00			EADS System & Defence Electronics	Oostkamp (Belgium)
F	100.00	F	100.00	EADS System & Defence Electronics SA	Velizy (France)
F	100.00	F	59.10	EADS Telecom Benelux	Bruxelles (Belgium)
F	100.00	F	100.00	EADS Telecom Canada Ldt.	Dallas, Texas (USA)
F	100.00	F	59.10	EADS Telecom Danmark	Copenhague (Denmark)
F	100.00	F	59.10	EADS Telecom Deutschland GmbH	Ulm (Germany)
F	100.00	F	59.10	EADS Telecom Deutschland GmbH	Unterschleißheim (Germany)
F	100.00	F	59.10	EADS Telecom Espana	Barcelona (Spain)
F	100.00	F	100.00	EADS Telecom Federal Systems Division	SanAntonio, Texas (USA)
F	100.00	F	100.00	EADS Telecom Holding	Paris (France)
F	100.00	F	100.00	EADS Telecom Inc (MATRA CUSA)	Dallas, Texas (USA)
F	100.00	F	59.10	EADS Telecom Mexico SA de CV	Mexico DF (Mexico)
F	98.95	F	98.95	EADS Telecom North America	Dallas, Texas (USA)
F	100.00	F	59.09	EADS Telecom SAS	Bois d'Arcy (France)
F	100.00	F	59.10	EADS Telecom Spa	Milan (Italy)
F	100.00	F	59.10	EADS Telecom UK Ltd.	UK
F	100.00	F	100.00	EUROBRIDGE Mobile Brücken GmbH	Friedrichshafen (Germany)
F	100.00	F	100.00	Ewation GmbH	Ulm (Deutschland)

F: Fully consolidated - P: Proportionate - E: Equity method

2003	%	2002	%	Company	Head office
F	100.00	F	100.00	Fairchild Controls Corporation	Frederick, Maryland (USA)
P	50.00	P	50.00	Forges de Zeebrugge S.A.	Herstal-Liege (Belgium)
F	100.00	F	100.00	Germantown Holding Company	Frederick Maryland (USA)
F	100.00	F	100.00	Gesellschaft für Flugzieldarstellung mbH	Germany
F	100.00	F	100.00	FmElo Elektronik- und Luftfahrtgeräte GmbH	Ulm (Germany)
F	100.00	F	100.00	Hagenuk Marinekommunikation GmbH	Flintbek (Germany)
F	98.95	F	98.95	Intecom Holding ULC	Dallas, Texas (USA)
F	81.25	F	81.25	LFK – Lenkflugkörpersysteme GmbH	Unterschleißheim (Germany)
F	100.00	F	100.00	M.C.N. SAT HOLDING	Velizy (France)
F	100.00	F	100.00	M.P. 13	Paris (France)
P	50.00			Maîtrise d'Oeuvre SyStème	Issy les Moulineaux (France)
F	100.00	F	100.00	Manhattan Beach Holdings Co.	Frederick, Maryland (USA)
P	37.50	P	37.50	Marconi Overside Ldt.	Chelmsford (UK)
F	100.00	F	100.00	Matra Aerospace Inc.	Frederick, Maryland (USA)
F	100.00	F	100.00	Matra Défense	Velizy (France)
P	37.50	P	37.50	Matra Electronique	La Croix Saint-Ouen (France)
F	100.00	F	100.00	Matra Holding GmbH	Frankfurt (Germany)
P	37.50	P	37.50	MBDA France	Velizy (France)
P	37.50	P	37.50	MBDA Inc.	Westlack, CA (USA)
P	37.50	P	37.50	MBDA Italy SpA	Roma (Italy)
P	37.50	P	37.50	MBDA M S.A.	Chatillon sur Bagneux (France)
P	37.50	P	37.50	MBDA SAS	Velizy (France)
P	37.50	P	37.50	MBDA Services	Velizy (France)
P	37.50	P	37.50	MBDA Treasury	Jersey (UK)
P	37.50	P	37.50	MBDA UK Ltd.	Stevenage, Herts (UK)
F	100.00	F	100.00	MULTICOMS	Vélizy (France)
F	100.00	F	100.00	Operations Services Germany	Unterschleißheim (Germany)
F	80.00	F	80.00	Pentastar Holding	Paris (France)
F	100.00	F	100.00	Proj2	Paris (France)
P	50.00	P	50.00	Propulsion Tactique S.A.	La Ferte Saint Aubin (France)
F	98.95	F	98.95	Pyderion Contact Technologies Inc.	Dallas, Texas (USA)
E	33.00			Reutech Radar Systems (Pty) Ltd.	Stellenbosch (South Africa)
E	18.75			Roxel	Saint-Médard-en-Jalles (France)
F	100.00	F	100.00	Sycomore S.A.	Boulogne -Billancourt (France)
F	67.00	F	67.00	TAURUS Systems GmbH	Schrobenhausen (Germany)
P	50.00	P	50.00	TDA – Armements S.A.S.	LaFerte Saint Aubin (France)
F	98.00	F	98.00	TDW- Ges. für verteidigungstechnische Wirksysteme GmbH	Schrobenhausen (Germany)
F	100.00	F	100.00	International Test & Services	Velizy (France)
F	100.00	F	100.00	TYX Corp.	Reston, VA (USA)
E	50.00			United Monolithic Semiconductors France SAS	Orsay (France)
E	50.00			United Monolithic Semiconductors Holding	Orsay (France)
E	50.00			United Monolithics Semiconductor GmbH	Ulm(Germany)

F: Fully consolidated - P: Proportionate - E: Equity method

	2003	%	2002	%	Company	Head office
Space						
	F	100.00	P	75.00	Computadoras, Redes e Ingenieria SA (CRISA)	Madrid (Spain)
	F	100.00	P	75.00	EADS Astrium GmbH	Munich (Germany)
	F	100.00			EADS Astrium Jersey Ltd.	Jersey (UK)
	F	100.00	P	75.00	EADS Astrium Ltd.	Stevenage (UK)
	F	100.00	P	75.00	EADS Astrium N.V.	The Hague (Netherlands)
	F	100.00	P	75.00	EADS Astrium SAS	Toulouse (France)
	F	100.00	F	100.00	EADS CASA Spacio S.L.	Madrid (Spain)
	F	100.00	F	100.00	EADS Deutschland GmbH – Space Services	Munich (Germany)
	F	68.40	F	68.40	EADS Dornier Raumfahrt Holding GmbH	Munich (Germany)
	F	100.00	F	100.00	EADS Space B.V.	Amsterdam (Netherlands)
	F	100.00			EADS Space Transportation (Holding) SAS	Paris (France)
	F	100.00			EADS Space Transportation GmbH	Munich (Germany)
	F	100.00			EADS Space Transportation N.V.	Amsterdam (Netherlands)
	F	100.00	F	100.00	EADS Space Transportation S.A.	Les Muraux (France)
	F	100.00	F	100.00	Global DASA LLC	New York (USA)
	F	100.00	P	75.00	Matra Marconi Space UK Ltd.	Stevenage (UK)
	F	100.00	P	75.00	MMS Systems Ltd.	Stevenage (UK)
	E	47.40	E	47.40	Nahuelsat S.A.	Buenos Aires (Argentina)
	F	100.00	P	75.00	NRSCL Infoterra Ltd.	Southwood (UK)
	F	100.00			Paradigm Secure Communications (Holding) Ltd.	Stevenage (UK)
	F	100.00			Paradigm Secure Communications Ltd.	Stevenage (UK)
	F	100.00			Paradigm Services Ltd.	Stevenage (UK)
	F	100.00	P	75.00	TESAT-Spacecom Geschäftsführung GmbH	Backnang (Germany)
	F	100.00	P	75.00	TESAT-Spacecom GmbH & Co. KG	Backnang (Germany)
Military Transport Aircraft						
	F	90.00			Airbus Military S.L.	Madrid (Spain)
	F	100.00			CASA Aircraft USA, Inc.	Chantilly, Virginia (USA)
	F	100.00	F	100.00	EADS CASA S.A. (Unit: EADS CASA Military Transport Aircraft)	Madrid (Spain)
Aeronautics						
	F	80.00	F	50.00	Aerobail GIE	Paris (France)
	F	100.00	F	100.00	American Eurocopter Corp.	Dallas, Texas (USA)
	F	60.00			American Eurocopter LLC	Dallas, Texas (USA)
	P	50.00	P	51.00	ATR GIE	Toulouse (France)
	F	50.10	F	50.10	Composites Aquitaine S.A.	Salaunes (France)
	F	50.00	F	50.00	Composites Atlantic Ltd.	Halifax (Canada)
	F	88.00	F	88.00	EADS Aeroframe services LLC	LakeCharles, Louisiana (USA)
	F	100.00	F	100.00	EADS ATR S.A.	Toulouse (France)
	F	100.00	F	100.00	EADS EFW Beteiligungs- und Verwaltungsgesellschaft GmbH	Munich (Germany)
	F	100.00	F	100.00	EADS Revima APU S.A.	Caudebec en Caux (France)
	F	100.00	F	100.00	EADS Revima S.A.	Tremblay en France (France)
	F	100.00	F	100.00	EADS Seca S.A.	Le Bourget (France)
	F	100.00	F	100.00	EADS Socata S.A.	Le Bourget (France)

F: Fully consolidated - P: Proportionate - E: Equity method

2003	%	2002	%	Company	Head office
F	100.00	F	100.00	EADS Sogerma S.A.	Mérignac (France)
F	50.10	F	50.10	EADS Sogerma Tunisie	Monastir (Tunisia)
F	100.00	F	100.00	Elbe Flugzeugwerke GmbH	Dresden (Germany)
F	75.00	F	75.00	Eurocopter South East Asia	Singapore
F	100.00	F	100.00	Eurocopter Canada Ltd.	Ontario (Canada)
F	100.00	F	100.00	Eurocopter Deutschland GmbH	Munich (Germany)
F	100.00	F	100.00	Eurocopter Holding S.A.	Paris (France)
F	100.00	F	100.00	Eurocopter S.A.	Marignane (France)
F	76.52	F	76.52	Helibras - Helicopteros do Brasil S.A.	Itajuba (Brasil)
F	100.00	F	100.00	Maroc Aviation S.A.	Casablanca (Morocco)
F	100.00	F	100.00	Noise Reduction Engineering B.C.	Washington D.C. (USA)
F	100.00			Socata Aircraft Inc.	Miami, Florida (USA)
F	100.00	F	100.00	Sogerma America Barfield B.C.	Miami, Florida (USA)
F	100.00			Sogerma Drawings S.A.	Mérignac (France)
Additionally consolidated are 40 SPEs.					
Headquarters					
F	100.00	F	100.00	Airbus Financial Company Holding B.V.	Dublin (Ireland)
F	75.00	F	75.00	DADC Luft- und Raumfahrt Beteiligungs AG	Munich (Germany)
E	46.03	E	45.96	Dassault Aero Service	
E	46.03	E	45.96	Dassault Assurances Courtage	
E	46.03	E	45.96	Dassault Aviation	Paris (France)
E	46.03	E	45.96	Dassault Falcon Jet and subsidiaries	Teterboro, NJ (USA)
E	46.03	E	45.96	Dassault Falcon Service	
E	46.03	E	45.96	Dassault International France	Vaucresson (France)
E	46.03	E	45.96	Dassault Intemational Inc	Paramus, NJ (USA)
F	93.58	F	75.89	Dornier Zentrale	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS CASA France	Paris (France)
F	100.00	F	100.00	EADS CASA S.A. (Headquarters)	Madrid (Spain)
F	100.00	F	100.00	EADS Deutschland GmbH – Zentrale	Munich (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH, FO – Forschung	Munich (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH, LO - Liegenschaften OTN	Munich (Germany)
F	100.00	F	100.00	EADS France	Paris (France)
F	100.00			EADS North America Inc.	Washington (USA)
F	100.00	F	100.00	EADS Raumfahrt Beteiligungs GmbH	Ottobrunn (Germany)
E	46.03	E	45.96	IPS	
E	46.03	E	45.96	Société Toulouse Colomiers	
E	46.03	E	45.96	Sogitec Industries	Suresnes (France)

The respective stated percentage of ownership is considered to represent the direct participation in the company.

F: Fully consolidated - P: Proportionate - E: Equity method

BALANCE SHEET

(in millions of €)	Note	At December 31, 2003	2002
Assets			
Goodwill	3	4,354	4,618
Financial assets	3	9,647	5,479
Fixed assets		**14,001**	**10,097**
Receivables and other assets	4	3,778	5,343
Securities	5	307	657
Cash and cash equivalents	5	6,117	3,793
Non-fixed assets		**10,202**	**9,793**
Total assets		**24,203**	**19,890**
Liabilities and stockholders'equity			
Capital stock		813	811
General reserves		15,336	11,954
Stockholders'equity	6	**16,149**	**12,765**
Financial liabilities		194	-
Other liabilities	7	7,860	7,125
Liabilities		**8,054**	**7,125**
Total liabilities and stockholders'equity		**24,203**	**19,890**

STATEMENT OF INCOME

(in millions of €)	2003	2002
Income from investments	398	118
Other results	(246)	(417)
Net result	**152**	**(299)**

1. GENERAL

EADS N.V., having its legal seat in Amsterdam, the Netherlands, is engaged in the holding, coordinating and managing of participations or other interests in and to finance and assume liabilities, provide for security and/or guarantee debts of legal entities, partnerships, business associations and undertakings that are involved in the aeronautic, defence, space and/or communication industry or activities that are complementary, supportive or ancillary thereto.

The description of the company's activities and the group structure, as included in the notes to the consolidated financial statements, also apply to the company statutory financial statements. In accordance with article 402 Book 2 of the Dutch Civil Code the statement of income is presented in abbreviated form.

2. ACCOUNTING PRINCIPLES

The accounting principles as described in the notes to the consolidated financial statements also apply to the company statutory financial statements, unless indicated otherwise.

3. FIXED ASSETS

The movement in fixed assets are detailed as follows:

(in millions of €)	Goodwill	Financial Assets Participating Interests	Total
Balance at December 31, 2002	**4,618**	**5,479**	**10,097**
Additions	-	449	449
Amortisation	(264)	-	(264)
Net income from investments	-	398	398
Fair value adjustments financial instruments / others	-	3,482	3,482
Dividends received	-	(161)	(161)
Balance at December 31, 2003	**4,354**	**9,647**	**14,001**

The fair value adjustments on financial instruments / others reflect mainly the impact in the Other Comprehensive Income related to the application of IAS 39.

4. RECEIVABLES AND OTHER ASSETS

(in millions of €)	2003	2002
Receivables from affiliated companies	3,561	5,214
Receivables from related companies	57	49
Other assets	160	80
Total receivables and other assets	**3,778**	**5,343**

The receivables from affiliated companies include mainly receivables in connection with the cash pooling in EADS N.V.

All receivables and other assets mature within one year.

5. SECURITIES, CASH AND CASH EQUIVALENTS

EADS changed its disclosure regarding short term securities. Short term securities which are subject to an insignificant risk of changes in value which had previously been disclosed as part of the line item "Securities" have been classified to line item "Cash and cash equivalents". For further information please see note 2 of the consolidated financial statements.
The securities comprise mainly Available-for-Sale Securities.

6. STOCKHOLDERS' EQUITY

(in millions of €)	Capital stock	Share premium from contributions	Share premium from cash	Accumulated other comprehensive income	Treasury shares	Legal reserves	Retained earnings	Total equity
Balance at December 31, 2001	**809**	**8,459**	**1,065**	**(1,278)**	**-**	**240**	**582**	**9,877**
Capital increase	2		14					16
Net loss							(299)	(299)
Cash distribution							(403)	(403)
Transfer to legal reserve						40	(40)	
Repurchase treasury shares					(156)			(156)
Other comprehensive income				3,730				3,730
Balance at December 31, 2002	**811**	**8,459**	**1,079**	**2,452**	**(156)**	**280**	**(160)**	**12,765**
Capital increase	2		19					21
Net income							152	152
Cash distribution			(240)					(240)
Transfer to legal reserve						190	(190)	
Repurchase treasury shares					(31)			(31)
Other comprehensive income				3,482				3,482
Balance at December 31, 2003	**813**	**8,459**	**858**	**5,934**	**(187)**	**470**	**(198)**	**16,149**

For further information to the Stockholders' equity, please see note 18 of the consolidated financial statements.

The cumulative foreign exchange translation adjustments are part of the accumulated other comprehensive income.

The accumulated other comprehensive income relates mainly to the fair value adjustments of financial instruments in relation to participating interests.

The legal reserves as required by Dutch law are related to EADS' share in the undistributed results from investments for 466 M € (2002: 280 M €) and the internally generated capitalized development costs of 4 M € (2002: nil).

7. OTHER LIABILITIES

(in millions of €)	2003	2002
Liabilities to affiliated companies	6,999	6,335
Liabilities to related companies	765	741
Other liabilities	96	49
Total	**7,860**	**7,125**

The liabilities to affiliated companies include mainly liabilities in connection with the cash pooling in EADS N.V..

8. COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees totaling 56 M € have been given on behalf of other group companies.

9. REMUNERATION

EADS changed in 2003 its disclosure regarding bonuses. Previously, bonuses were disclosed in the period the payment took place. In accordance with Dutch regulations, in 2003, the bonuses related to the reporting period, normally paid in the following year, are disclosed. The prior year bonuses are adjusted.

The total remuneration and related costs of the members of the Board of Directors and former directors in 2003 can be specified as follows:

(in €)	2003	2002
Fixum	3,981,000	4,493,538
Bonus (related to reporting period)	3,821,930	3,672,425
Fees	205,000	220,000
Total	**8,007,930**	**8,385,963**

The cash remuneration of the individual members of the Board of Directors was as follows:

2003 (In €)	Fixum	Bonus related to 2003	Fees	Total
Directors				
Manfred Bischoff	60,000	153,000	70,000	283,000
Arnaud Lagardère(1)	-	102,000	40,000	142,000
Philippe Camus	1,114,500	916,309	-	2,030,809
Rainer Hertrich	1,114,500	916,309	-	2,030,809
Noël Forgeard	1,097,000	1,067,949	-	2,164,949
Hans Peter Ring	310,000	322,113	-	632,113
Eckhard Cordes	30,000	76,500	25,000	131,500
Pedro Ferreras	30,000	76,500	25,000	131,500
Jean-René Fourtou	30,000	76,500	10,000	116,500
Michael Rogowski	30,000	76,500	25,000	131,500
Former directors				
Jean-Luc Lagardère(1)	60,000	38,250	10,000	108,250
Axel Arendt	105,000	-	-	105,000
Total	**3,981,000**	**3,821,930**	**205,000**	**8,007,930**

(1) The bonuses for Mr. Jean-Luc Lagardère and Mr. Arnaud Lagardère are included pro rata in accordance with their membership in the Board of Directors.

2002 (In €)	Fixum	Bonus related to 2002	Fees	Total
Directors				
Manfred Bischoff	60,000	142,000	70,000	272,000
Jean-Luc Lagardère	60,000	142,000	70,000	272,000
Philippe Camus	1,202,281(1)	849,000	-	2,051,281
Rainer Hertrich	1,500,146(2)	849,000	-	2,349,146
Noël Forgeard	1,042,997	1,087,925	-	2,130,922
Eckhard Cordes	30,000	71,000	25,000	126,000
Pedro Ferreras	30,000	71,000	35,000	136,000
Jean-René Fourtou	30,000	71,000	5,000	106,000
Michael Rogowski	30,000	71,000	15,000	116,000
Former directors				
Axel Arendt	508,114	318,500	-	826,614
Total	**4,493,538**	**3,672,425**	**220,000**	**8,385,963**

(1) Including 57,399 € additional payments related to previous years.

(2) Including 355,632 € additional payments related to previous years.

The table below gives an overview of the interests of the members of the Board of Directors under the stock options plans of EADS:

	Number of options				
	as of Jan. 1, 2003	granted during 2003	as of Dec. 31, 2003	exercise price Euro	expiry date
Philippe Camus	135,000	-	135,000	20.90	July 8, 2010
	135,000	-	135,000	24.66	July 12, 2011
	135,000	-	135,000	16.96	August 8, 2012
		135,000	135,000	15.65	October 9, 2013
Rainer Hertrich	135,000	-	135,000	20.90	July 8, 2010
	135,000	-	135,000	24.66	July 12, 2011
	135,000	-	135,000	16.96	August 8, 2012
	-	135,000	135,000	15.65	October 9, 2013
Noël Forgeard	110,000	-	110,000	20.90	July 8, 2010
	88,000	-	88,000	24.66	July 12, 2011
	108,000	-	108,000	16.96	August 8, 2012
	-	108,000	108,000	15.65	October 9, 2013
Hans Peter Ring	10,000	-	10,000	20.90	July 8, 2010
	28,000	-	28,000	24.66	July 12, 2011
	37,000	-	37,000	16.96	August 8, 2012
	-	50,000	50,000	15.65	October 9, 2013
Total	**1,191,000**	**428,000**	**1,619,000**		

The pension benefit obligation for the Executive members of the Board of Directors is as follows:

The Executive Board members have pension promises as part of their employment agreements. The general policy is to give them annual pension of 50% of their annual base salary after five years in the Executive Committee of EADS at the age of 60 to 65. In case of the CEO's, the retirement age is 60. This obligation will increase to 60% after ten years of service in the EADS Executive Committee.

These pension schemes have been implemented and financed through collective executive pension plans in France and Germany. These pension promises have also separate rules e.g. for minimum length of service and other conditions to comply with national regulations.

The amounts reported for the Executive Board members are free of benefits in kind they are entitled to as well as the national social and tax impact.

Executives Board members are entitled to a company car. Mr. Rainer Hertrich benefits also from a free accommodation in France.

EADS has not provided any loans to / advances to / guarantees on behalf of (retired) directors.

SUPPLEMENTARY INFORMATION

1. AUDITORS' REPORT

Introduction

We have audited the accompanying financial statements of EADS N.V., Amsterdam for the year 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the company's financial position as of December 31, 2003 and of the result for the year then ended in accordance with International Financial Reporting Standards and in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

The Hague, March 5, 2004

KPMG Accountants N.V.

Amsterdam, March 5, 2004

Ernst & Young Accountants

2. APPROPRIATION OF RESULT

Articles 30 and 31 of the Articles of Association provide that the board of directors shall determine which part of the result shall be attributed to the reserves. The general meeting of shareholders may dispose of a reserve only upon a proposal of the Board of Directors and to the extent it is permitted by law and the Articles of Association. Dividends may only be paid after adoption of the annual accounts from which it appears that the shareholders' equity of the company is more than the amount of the issued and paid-in part of the capital increased by the reserves that must be maintained by law.

It will be proposed at the Annual General Meeting of Shareholders that the net profit of 152 M € as shown in the profit and loss statement for the financial year 2003 is to be added to retained earnings and that a payment of a gross amount of 0,40 € per share shall be made to the shareholders from distributable reserves.

3. SUBSEQUENT EVENTS

For further information please see note 33 of the consolidated financial statements.

How to get to the Sheraton Amsterdam Airport Hotel

By air

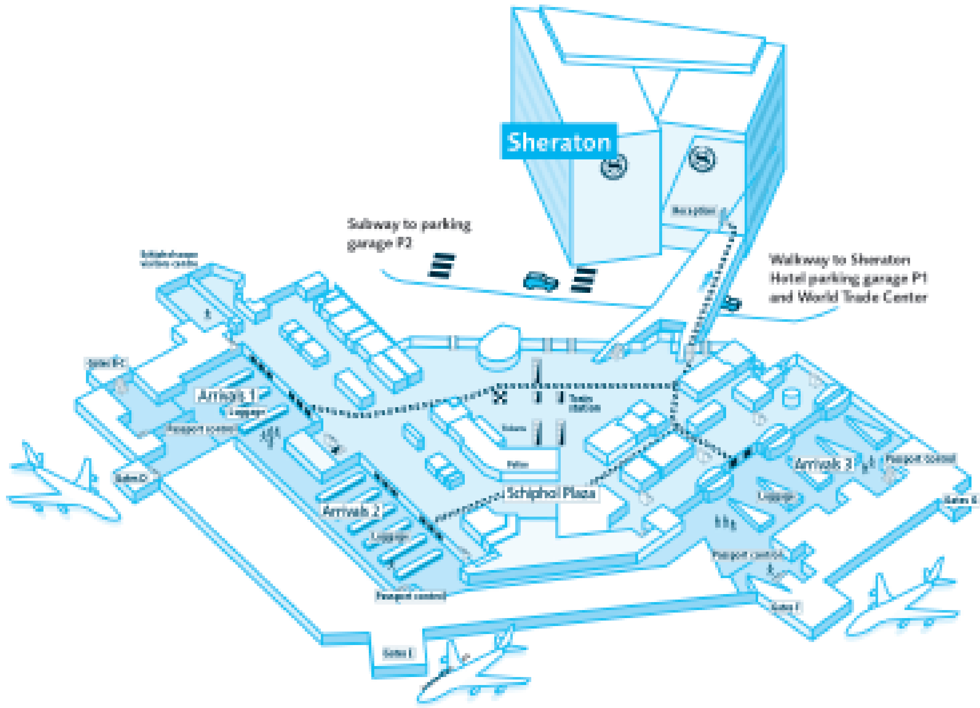
Arrival Terminals Schiphol Airport

- From the Arrival Terminal (1,2 or 3) follow the signs Schiphol Plaza. From Schiphol Plaza follow the signs WTC Kantoren Sheraton directing to the Traverse walkway. In this walkway pass the Ticket machines and you will find after 50 metres the Sheraton Amsterdam Airport Hotel on your left hand.

By railway

Arrival Train: Schiphol Airport

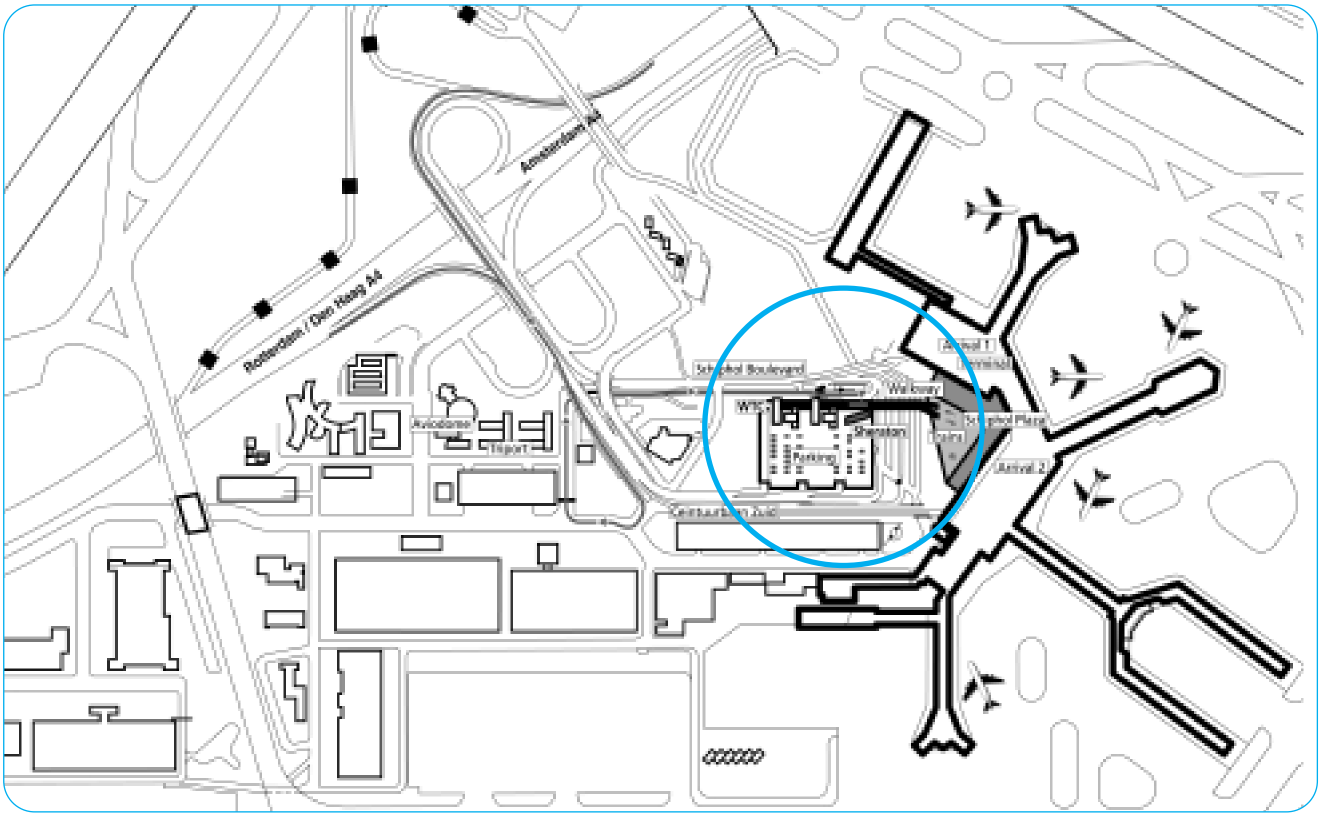
- From the train platform go up with the escalator to Schiphol Plaza. From Schiphol Plaza follow the signs WTC Kantoren Sheraton directing to the Traverse walkway. In this walkway pass the Ticket machines and you will find after 50 metres the Sheraton Amsterdam Airport Hotel on your left hand.



By car

A4: from the Hague / Rotterdam & Amsterdam

- From the A4 Motorway take Exit: Schiphol and follow the signs WTC Kantoren / Sheraton until the Sheraton Parking. Within the parking take the elevator to the second floor. On the second floor (you are now in the Traverse walkway) go to the right in the direction of Schiphol Airport Arrival & Departure. After 50 metres you will find the entrance of the Sheraton Amsterdam Airport Hotel on your right hand.



Shareholders Information

(free call)

France:	0 800 01 2001
Germany:	00 800 00 02 2002
Spain:	00 800 00 02 2002

mailbox: **ir@eads.net**

European Aeronautic Defence and Space Company EADS N.V.

Limited liability company (naamloze vennootschap)

Le Carré, Beechavenue 130-132, 1119 PR Schiphol-Rijk, The Netherlands

Registered at the Chamber of Commerce in Amsterdam under number 24288945

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