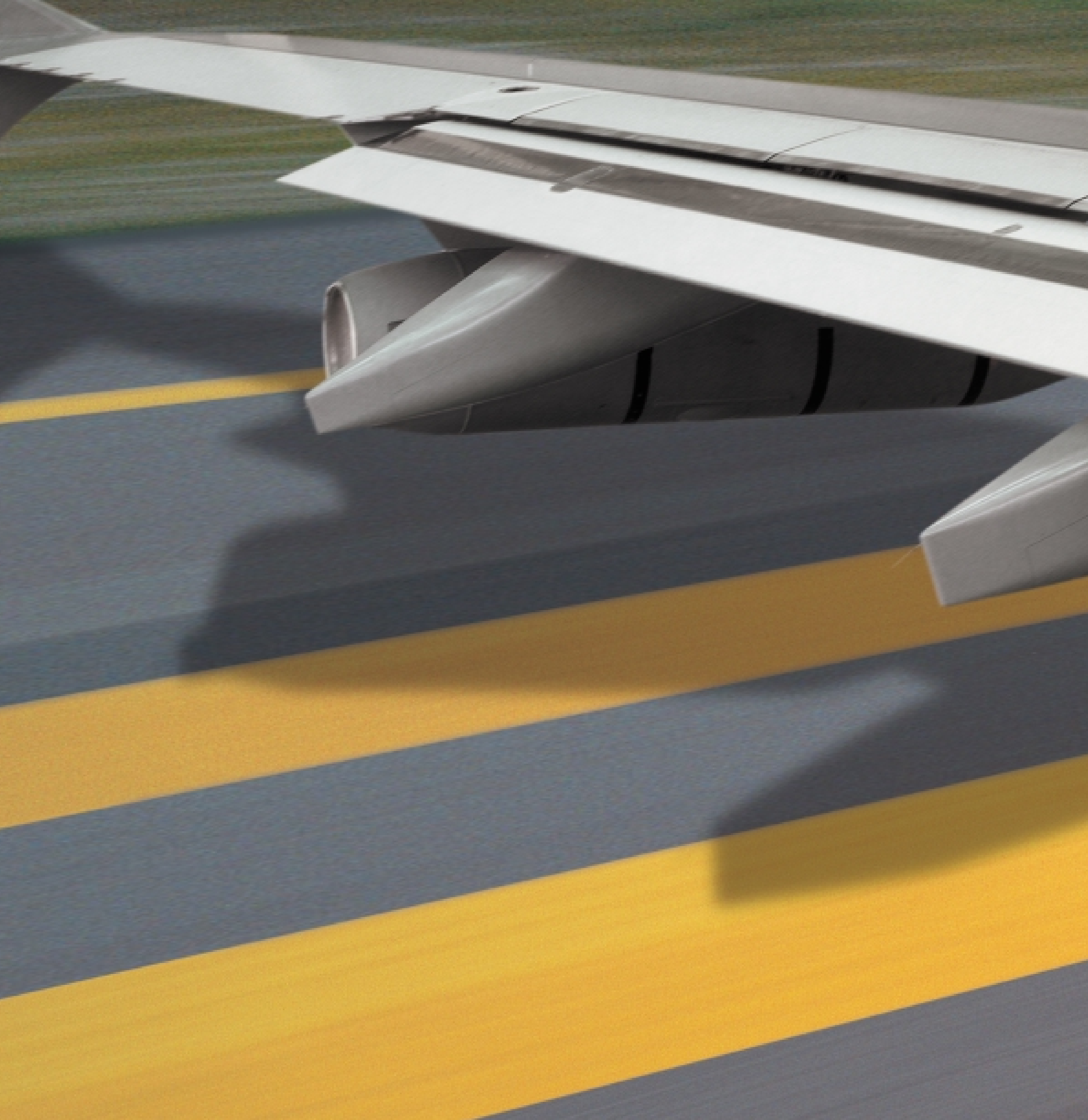


To New Levels

Financial Statements and Corporate Governance 2003

EADS

The step beyond

This Reference Document was filed in French with the *Autorité des Marchés Financiers* on April 1, 2004 pursuant to *Règlement* No. 98-01 of the *Commission des opérations de bourse*. It may be used in support of a financial transaction only if it is supplemented by a transaction note approved by the *Autorité des Marchés Financiers*.

Warning

The AMF draws the attention of the public to the fact that:

European Aeronautic Defence and Space Company EADS N.V. ("**EADS**" or the "**Company**") is a Dutch company, which is listed in France, Germany and Spain. Given this fact, the applicable regulations with respect to public information and protection of investors, as well as the commitments made by the Company to securities and market authorities, are described in this Reference Document.

This document contains information which forms an integral part of EADS' *Reference Document* filed with the *Autorité des Marchés Financiers* on April 1, 2004. When used as a *Reference Document*, it must be read in conjunction with the document entitled Business and Legal Description – 2003 (Reference Document Part 2).

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

European Aeronautic Defence and Space Company EADS N.V.

Financial Statements and Corporate Governance — 2003

Reference Document (Part 1)

Financial Year 2003

EADS Financial Policy

Financial Policy

Once again, EADS management has delivered on its commitment to adding sustainable long-term value for all stakeholders: shareholders, employees, and customers. Underlying this success are strong business ethics, financial discipline and dependability, shared throughout our businesses and headquarters. We take pride in these.

Three priorities are embedded in our financial strategy.

First, we aim at increasing overall profitability and cash generation. Managers have incentives to meet or exceed their targets, which are set as milestones in our plan towards the double digit EBIT* margin. Capacity adaptation plans, such as we are conducting in the Space division, or productivity improvements and cost saving initiatives, such as the Airbus "Route 06" plan, are also part of the execution of our financial strategy.

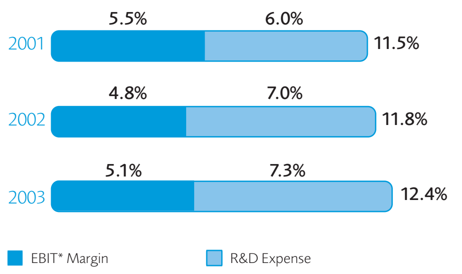
We are not acting on cost structure alone, as we pursue sensible investments to sustain profitable growth. For instance, the civil aviation weakness has not undermined our R&D and capital expenditure effort in the Airbus A380 program, from which we expect large cash and profit generation (Graph 1).

Regarding the high level of our net cash position (Graph 2), we are particularly satisfied that we ended the year well above plan: it reflects our focus on cash preservation. Working capital requirement is tightly managed, and managers of our Businesses are strongly encouraged to implement cash savings actions.

Rating Agencies have rewarded our discipline by keeping our ratings unchanged (S&P: single A- negative outlook; Moody's: A3 stable outlook).

Graph 1:

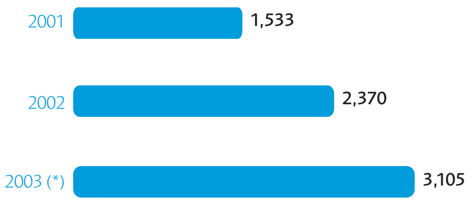
EBIT* Margin Pre-R&D (%) 2001-2003



EBIT* is earnings before interest and tax, pre-goodwill amortisation and exceptionals.

Graph 2:

Net Cash Position (in €m) 2001-2003



(*) From 2003, €1.1 billion of financial liabilities are netted against security deposits. The 2002 figure was restated accordingly for comparison.

Second, our financial strategy supports the EADS goal of rebalancing our civil and defence businesses, in order to buffer the effects of civil aviation cycles and optimise resource allocation.

We foster our financial engineering expertise to respond to exacting governmental customers requirements. As European Defence budgets are under pressure, the ability to design customer-tailored, tax-payer friendly, financial solutions will be a key asset for our defence growth strategy: so, in 2003, we gathered highly skilled resources in-house to capture important PFI (Private Financing Initiatives) opportunities. First, the UK MoD awarded our Paradigm subsidiary a contract, worth £ 2.5 billion, to provide secure communication satellites services over the next 20 years; currently, we are negotiating another record-size PFI with the UK MoD to provide tanker aircraft services. We expect further prospects worldwide in military space, secure communications, mission aircraft businesses and their related services.

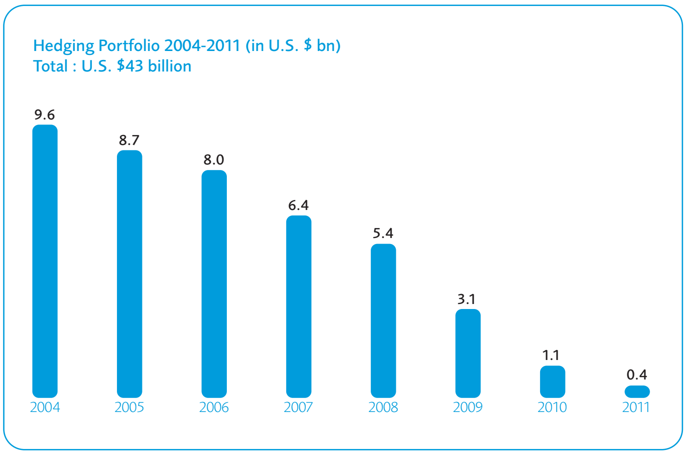
Thirdly, EADS strives to deserve the reputation of financial reliability, and transparency with which it is increasingly credited by financial markets, contractors and customers.

Programme control is key as we start on such giant projects as the € 20 billion A400M military transport aircraft contract, or as we implement technologically demanding telecom satellites and qualify the 10t version of Ariane 5, expected to be launched in 2004. To effectively monitor programme progress, we have enhanced regular and methodical reporting procedures comprehensively addressing technological, commercial and financial milestones.

The U.S. dollar value against the Euro and Pound Sterling calls for close scrutiny. While we generate around U.S.$20 billion annual revenues denominated in US dollars, mostly from aircraft sales, we still have a high proportion of Euro and Pound Sterling denominated costs; this leaves us with an annual net exposure of broadly U.S.$10 billion, dealt with through a systematic and prudent hedging policy.

Presently, our 2004 and 2005 results are fully hedged against currency volatility, as well as a very significant part of the cash flows from 2006 and 2007 firmly contracted deliveries. A380 firm orders, which extend into 2011, have also been hedged as they were placed (Graph 3). Hedging allows us to "buy time" and to improve our financial dependability. Besides that, we constantly look for devices to reduce net U.S. dollar exposure, such as Euro-denominated sales – the A400M contract is a good example – or through a higher proportion of U.S. dollar denominated outlays, for which the introduction of new programmes, the civil market upturn and new investments all present opportunities.

Graph 3:



Hans Peter Ring
Chief Financial Officer
EADS Executive Committee Member

1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, this document includes forward-looking statements. The forward-looking statements are generally identified by the use of forward-looking words, such as "anticipate", "expect" "estimate", "intend", "plan", "predict, " project", "will", "believe", "should", "may" or other variations of such terms, or by discussion of strategy that involves risks and uncertainties. These statements relate to EADS' future prospects, developments and business strategies and are based on analyses or forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements represent the view of EADS only as of the dates they are made, and EADS disclaims any obligation to update forward-looking statements, except as may be otherwise required by law. The forward-looking statements in this document involve known and unknown risks, uncertainties and other factors that could cause EADS' actual future results, performance and achievements to differ materially from those forecasted or suggested herein. These factors include changes in general economic and business conditions and currency exchange rates, as well as those described in Part 2/1.5 Risk Factors.

1.1.1 Introduction and Overview

The following discussion is based upon the audited consolidated financial statements of EADS for 2003, 2002 and 2001 (together, the "**Financial Statements**"). The Financial Statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**"). In 2003, EADS changed its accounting policy for the treatment of development costs in order to fully comply with International Accounting Standard ("**IAS**") 38. See "– 1.1.2 Critical Accounting Considerations, Policies and Estimates – Research and Development Expenses" and "Notes to the Consolidated Financial Statements – Note 2: Summary of Significant Accounting Policies "and" Note 11: Intangible Assets".

With consolidated revenues of € 30.1 billion for 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 is among the top two manufacturers of commercial aircraft (surpassing Boeing in terms of deliveries and orders in 2003), civil helicopters, commercial space launch vehicles and missiles, and a leading supplier of military aircraft, satellites and defence electronics. In 2003, it generated approximately 76% of its total revenues in the civil sector and 24% in the defence sector. As of December 31, 2003, EADS' active headcount was 109,135.

EADS organises its businesses into the following five operating divisions:

- **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 and special mission aircraft;
- **Aeronautics:** Development, manufacturing, marketing and sale of civil and military helicopters, regional turboprop aircraft and light commercial aircraft; civil and military aircraft conversion and maintenance services; and civil aircraft aerostructures;
- **Defence & Security Systems:** Development, manufacturing, marketing and sale of missile systems; military combat aircraft and training aircraft; defence electronics; defence-related (and some civil) telecommunications solutions; and logistics, training, testing, engineering and other related services; and
- **Space:** Development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers; and provision of launch services.

In general, these manufacturing businesses are characterised by long-term production cycles. Another significant characteristic of many of these businesses is the extent of their dependence on governmental budgets.

In 2003, as part of the restructuring of the former Defence and Civil Systems Division, the Military Aircraft business unit of the Aeronautics Division was transferred to the newly organized Defence & Security Systems Division (the "**DS Division**"). 2002 segment information for the two divisions has been adjusted to reflect this transfer. See "Notes to the Consolidated Financial Statements – Note 5: Segment Reporting".

EADS currently is rated A3 with a stable outlook by Moody's, and A-/negative outlook by Standard and Poor's.

Exchange Rate Information

The financial information presented hereinafter in this document is expressed in Euro, U.S. dollars or Pounds Sterling. The following table sets out, for the periods indicated, certain information concerning the exchange rate between the Euro and the U.S. dollar and Pound Sterling, calculated using the official European Central Bank fixing rate:

	Average		Period End	
Year ended	€-U.S.$	€-£	€-U.S.$	€-£
December 31, 2001	0.8957	0.6085	0.8813	0.6219
December 31, 2002	0.9451	0.6505	1.0487	0.6424
December 31, 2003	1.1304	0.6919	1.2630	0.7048

1.1.2 Critical Accounting Considerations, Policies and Estimates

1.1.2.1 Scope of and Changes in Consolidation Perimeter

Sales and acquisitions of interests in various businesses can account, in part, for differences in EADS' results of operations for one year as compared to those of another year.

Airbus: Airbus S.A.S. was established in July 2001 to integrate all design, manufacturing and marketing activities of Airbus following the acquisition by EADS of Airbus UK and of the 20% stake in Airbus GIE held by BAE SYSTEMS (the "**Airbus Combination**"). BAE SYSTEMS received 20% of the share capital of Airbus S.A.S. through a capital increase as part of the Airbus Combination, diluting EADS' interest in Airbus S.A.S. to 80%. See "– 1.1.4 EADS Results of Operations – Consolidated Minority Interest" and "Part 2/1.1.2 Airbus – Organisation of Airbus – Integration of the Airbus Activities".

Airbus is fully consolidated by EADS in light of the effective control EADS has exercised, by agreement with BAE SYSTEMS, over the assets and operations of Airbus since January 1, 2001.

MBDA: On December 18, 2001, EADS, BAE SYSTEMS and Finmeccanica formed MBDA, which combines the businesses of MBD and of AMM, and the missile systems activities of AMS. EADS and BAE SYSTEMS each hold a 37.5% stake in MBDA, with Finmeccanica holding the remaining 25%. Pursuant to the shareholder agreements relating to the MBDA group, EADS and BAE SYSTEMS together exercise certain controlling rights over MBDA through MBDA Holdings, including the right of MBDA Holdings to appoint MBDA's CEO, COO-Operations and CFO.

In 2001, the consolidated statement of income reflected a 50% consolidation of MBD and a full consolidation of AMM through to the formation of MBDA on December 18. From December 18, and as reflected in the December 31, 2001 consolidated balance sheet, EADS proportionally consolidates 50% of MBDA within the DS Division, consistent with its ability to influence operations, with Finmeccanica's holding reflected as a 12.5% minority interest. Since 2002, EADS has recognised a 50% proportionate share of MBDA's full year profit and loss accounts in its annual consolidated statement of income.

Acquisition of Astrium, Dornier GmbH, Tesat Spacecom, Cogent and EADS Telecom France: On January 30, 2003, EADS acquired BAE SYSTEMS' 25% interest in Astrium N.V., control of which transferred to EADS on the same date. Astrium was fully consolidated by EADS beginning in fiscal year 2003.

On September 18, 2003, EADS acquired the remaining 41% interest in EADS Telecom France S.A.S. from Nortel Networks as part of an exchange for EADS' interests in Nortel Networks Germany GmbH & Co. KG and Nortel Networks France S.A.S. EADS now holds 100% of EADS Telecom France S.A.S.

On October 21, 2003, EADS, through its subsidiary DADC, acquired an additional 17.7% of the share capital of Dornier GmbH for € 62 million, bringing its total stake in Dornier GmbH to 94%.

Following the acquisitions of Tesat Spacecom on November 30, 2001 and Cogent Defence Systems on December 1, 2001, the 2002 operations of these companies were consolidated fully for the first time in the EADS 2002 consolidated statement of income.

Disposal of Aircelle and EADS Matradatavision ("MDTV"): On March 6, 2002, EADS sold its interest in the Aircelle joint venture to Snecma for a disposal gain of € 63 million. On November 20, 2002, EADS sold MDTV (except for two remaining subsidiaries of MDTV) to IBM for € 12 milion. From the dates of disposal, these businesses were no longer included in the Financial Statements.

See "Notes to the Consolidated Financial Statements – Note 4: Acquisitions and Disposals".

1.1.2.2 Dilution Gains

The 2001 transactions leading to the formation of Airbus S.A.S. and MBDA resulted in a dilution of EADS' economic ownership in Airbus, MBD and AMM. These transactions required a valuation of the contributed businesses, whose market value, estimated in the course of negotiations, exceeded the carrying value of their consolidated net assets for EADS. Consequently, EADS recognised dilution gains of € 2.5 billion for a 20% dilution stake in Airbus, and of € 0.26 billion for 12.5% of MBD and 62.5% of AMM, all net of transaction-related charges. These dilution gains were reported in other income in 2001 and were deemed items of a non-recurring nature by EADS. See "– 1.1.3 Measurement of Management's Performance – Use of EBIT Pre-Goodwill Amortisation and Exceptionals".

1.1.2.3 Fair Value Adjustments

The merger of the operations of ASM, Dasa and CASA leading to the creation of EADS in 2000 was recorded using the purchase method of accounting with ASM as the acquirer. Accordingly, the book value of certain assets and liabilities, mainly property, plant and equipment and inventories, was adjusted by an aggregate amount of € 1.8 billion, net of income taxes, to allocate a portion of the respective fair market values of Dasa and CASA at the time of the merger (the "**fair value adjustments**"). These aggregate additions in value are generally being depreciated over four to fifteen years for fixed assets and amortised over approximately 24 months for inventories. In addition, in 2001 in connection with the formation of Airbus S.A.S., EADS adjusted the book value of Airbus fixed assets and inventories by an aggregate amount of € 0.3 billion, net of income taxes, to reflect their fair market values. The fair value adjustments lead to depreciation expense in the consolidated statements of income classified within cost of sales. For management reporting purposes, EADS treats these depreciation charges as non-recurring items in EBIT pre-goodwill amortisation and exceptionals. "– 1.1.3 Measurement of Management's Performance – Use of EBIT Pre-Goodwill Amortisation and Exceptionals".

1.1.2.4 Impairment of Assets

When, in the view of EADS' management ("**Management**"), a triggering event such as an adverse material market event or a significant change in forecasts or assumptions occurs, EADS performs an impairment test on the assets, group of assets, subsidiaries, joint ventures or associates likely to be affected. Generally, the discounted cash flow method is used to determine the value of the assets. The discounted cash flow method is sensitive to the selected discount rate and Management's estimate of future cash flows. Consequently, slight changes to these elements can materially impact the resulting asset valuation and therefore the amount of the impairment.

As was the case in 2001, EADS conducted impairment tests in 2002 on the net assets of businesses in the Space Division resulting in a goodwill impairment charge of € 0.4 billion relating to the commercial space business. The impairment of goodwill has an effect on profitability, as it is recorded in the line item "other expense" on EADS' consolidated statement of income.

No additional assets needed to be impaired in 2003.

See "– 1.1.4 EADS Results of Operations – Consolidated Amortisation of Goodwill and Impairment Losses" and "Notes to the Consolidated Financial Statements – Note 11: Intangible Assets".

1.1.2.5 Research and Development Expenses

In 2003, with the application of IAS 38, "Intangible Assets", the EADS group (the"**Group**") assessed whether product-related development costs qualified for capitalisation as internally generated intangible assets. Criteria for capitalisation recognition are strictly applied. Consequently, all research and development costs not meeting the IAS 38 criteria are expensed as incurred in the consolidated statement of income.

Current and previous research and development programs have been reviewed to determine the extent to which potential expenses in the development phase of such programs meet the recognition criteria of IAS 38. As a result of the transition to IAS 38 in 2003, EADS capitalised € 4 million of product-related development costs incurred in 2003 as internally generated intangible assets.

EADS considers that, due to the complexity of its products (especially civil aircraft, such as the A380), processes carried out in the various research and development phases are too intertwined to allow a proper distinction between these phases prior to the very late stages of particular programs. In addition, the absence in prior years of systems able to gather the relevant information prevents EADS from retroactively allocating costs for previous R&D programs, as required by IAS. Consequently, prior-year financial statements have not been impacted by the application of IAS 38.

Most of the estimated future development costs that will be capitalised as a result of compliance with IAS 38 relate to the A380 programme. Through 2008, Management expects that approximately € 0.5 billion of future A380-related development costs will meet the IAS 38 recognition criteria for internally generated intangible assets, including approximately € 0.1 billion in 2004.

Since 2002, the depreciation of jigs and tools has been recorded in cost of sales in accordance with IFRS. In prior years, it had been recorded in the line item "research and development expenses". For reasons of comparability, the 2001 consolidated statement of income were restated to reflect jigs and tools depreciation (€ 0.2 billion) in cost of sales.

1.1.2.6 Accounting for Hedged Transactions in the Financial Statements

Approximately two-thirds of EADS' revenues are denominated in U.S. dollars, whereas the major portion of its costs is incurred in Euro. 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 minimise the impact of exchange rate fluctuations on these profits. See "– 1.1.7 Management of Market Risks – Exchange Rate Risk" and "Part 2/1.5.1 Market Risk – Exposure to Foreign Currencies".

Historically, EADS' currency hedge portfolio consisted of both micro and macro hedges, the accounting for which differs as explained below. As a result of the application of IAS 39 "Financial Instruments: Recognition and Measurement" cash flow hedging treatment to the majority of EADS' hedge portfolio since 2001, the significant variations in financial income that EADS experienced in earlier periods are significantly reduced and changes in net income are more in line with variations in operating income than they had been in prior periods.

Micro Hedges. When hedges form a hedging relationship with customer orders to which they specifically relate, they qualify for IAS 39 hedge accounting and are referred to as "micro" hedges. Revenues from such customer orders are recorded in Euro at the hedged rate and the impact of the hedges is recognised in gross margin and operating income at the time of revenue recognition. At the end of each accounting period, the value of each outstanding micro hedge contract is marked-to-market in the balance sheet on the basis of the then prevailing forward exchange rate. See "– 1.1.5 Statement of Changes in Consolidated Shareholders' Equity". For products such as aircraft, EADS typically hedges the first forecasted highly probable future cash inflows for a given month based upon final payments at delivery. See "– 1.1.7 Management of Market Risks – Exchange Rate Risk".

Micro hedges associated with cancelled or postponed customer orders, to the extent such cancellations result in an overhedging situation, are deemed terminated for accounting purposes. The sum of (i) changes in the fair value of these hedges since January 1 and (ii) a reversal of the portion of AOCI corresponding to these hedges prior to January 1, would be recorded in financial income and deferred tax income (loss) in the consolidated statement of income. No such accounting entries were recorded in 2003.

Macro Hedges. Hedges that do not relate to a specified customer order, referred to as "macro" hedges, do not qualify for IAS 39 hedge accounting treatment. Unlike micro hedges, macro hedges do not have an impact on gross margin or operating income, even though they initially were intended to hedge cash flows from deliveries. Upon maturing, they are accounted for in the line item "financial result". At the end of each accounting period, each outstanding macro hedge contract is marked-to-market on the basis of the then prevailing forward exchange rate. Changes in pre-tax mark-to-market values from the previous accounting period are recorded in the line item "other financial result" in the consolidated statement of income. See "Notes to the Consolidated Financial Statements – Note 9: Financial Result".

On January 1, 2001, most macro hedges then outstanding were tied to specified customer orders and thereby qualified for IAS 39 micro hedge accounting treatment. These hedges were ascribed an implicit conversion rate corresponding to the forward Euro-U.S. dollar exchange rate frozen at December 31, 2000. As of January 1, 2003, there were no longer any outstanding sales-related macro hedges not tied to specified customer orders.

Revenues in currencies other than the Euro that are not hedged through financial instruments are translated into Euro at the spot exchange rate at the date the underlying transaction occurs.

1.1.2.7 Accounting for Sales Financing Transactions in the Financial Statements

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. See "– 1.1.6 Liquidity and Capital Resources – Sales Financing". The accounting treatment of sales financing transactions varies based on the nature of the financing transaction and the resulting exposure.

On Balance Sheet. When, pursuant to a financing transaction, the risks and rewards of ownership of the financed aircraft reside with the customer, the transaction is characterised as either a loan or a financial lease. In such instances, revenues from the sale of the aircraft are recorded upon delivery, while financial interest is recorded over time as financial income. The outstanding balance of principal is recorded on the balance sheet in other long-term financial assets, net of accumulated write-downs. See "Notes to the Consolidated Financial Statements – Note 13: Investments in Associates, Other Investments and Long-term Financial Assets".

By contrast, when the risks and rewards of ownership remain with Airbus or ATR, the transaction is characterised as an operating lease. EADS' general policy is to not enter into operating leases for new aircraft to be delivered to customers. Therefore, new operating leases primarily arise in connection with the re-marketing of repurchased or repossessed aircraft. Rather than recording 100% of the revenues from the "sale" of the aircraft at the time of such "sale", rental income from such operating leases is recorded in revenues over the term of the respective leases. The leased aircraft are recorded at cost on the balance sheet as tangible assets, the corresponding depreciation and allowance charges are recorded in cost of sales and the margin is recorded as deferred income. See "Notes to the Consolidated Financial Statements – Note 12: Property, Plant and Equipment".

Off Balance Sheet – Contingent Commitments. Certain sales financing commitments, such as lease in/lease out structures and certain asset value guarantees ("**AVGs**"), are not recorded on the balance sheet.

Under lease in/lease out structures, which Airbus and ATR applied in the past to take advantage of certain jurisdictions' leasing-related tax benefits, the risks and rewards of ownership of the aircraft are typically borne by a third party, usually referred to as the head lessor. The head lessor leases the aircraft to Airbus or ATR, which in turn sub-leases it to the customer. To the extent possible, the terms of the head lease and sub-lease match payment streams and other financial conditions. Such commitments by Airbus or ATR are reported as off-balance sheet contingent liabilities.

Asset Value Guarantees. Certain sales contracts may include the provision of an AVG, whereby Airbus or ATR guarantee a portion of the market value of an aircraft during a limited period after its delivery. See "Notes to the Consolidated Financial Statements – Note 25: Commitments and Contingencies".

If the present value of the AVG exceeds 10% of the sales price of the aircraft, the sale of the underlying aircraft is accounted for as an operating lease in the Financial Statements. In this case, upon aircraft delivery, the cash payment received from the customer is recognised on the consolidated balance sheet as deferred income and amortised straight-line to the amount, and up to the last exercise date, of the AVG. The production cost of the aircraft is recorded in tangible assets, and the difference between production cost and the AVG amount is depreciated up to the exercise date of the AVG. Depreciation expenses are recorded in cost of sales in the consolidated statement of income. See "Notes to the Consolidated Financial Statements – Note 12: Property, Plant and Equipment" and "Note 22: Deferred Income".

If the present value of an AVG is below the 10% threshold, the transaction concerned by the AVG is not recorded on the consolidated balance sheet, but accounted for as a sale. To reduce exposure under AVGs and to minimise the likelihood of their occurrence, Airbus and ATR extend them with prudent guaranteed asset values and restrictive exercise conditions, including limited exercise window periods. AVGs are generally not expected to be exercised.

Provisions and Allowances. Under its provisioning policy for sales financing risk, EADS records provisions to fully cover its financing and asset value net exposure. Provisions pertaining to sales financing exposure, whether on-balance sheet or off-balance sheet, are recorded in provisions, or as write downs of the related assets. Provisions recorded as liabilities relate primarily to off-balance sheet commitments. See "Notes to the Consolidated Financial Statements – Note 19 (d): Other Provisions". Provisions are recorded as write downs of the related assets when they can be directly related to the corresponding asset. See "Notes to the Consolidated Financial Statements – Note 12: Property, Plant and Equipment" and "Note 13: Investments in Associates, Other Investments and Long-term Financial Assets". While Management views its valuations of collateral as conservative, changes in provisions to reflect revised valuations may have a material impact on net income in future periods.

1.1.3 Measurement of Management's Performance

1.1.3.1 Order Backlog

Year-end order backlog represents firm future revenues from contracts signed up to that date. EADS uses order backlog as a measure of commercial performance, and growth of EADS' order backlog is an ongoing goal of Management. Only firm orders are included in calculating order backlog – for commercial aircraft, a firm order is defined as one for which EADS receives a non-refundable down payment on a definitive contract not containing a "walk-away" provision. Defence-related orders are included in the backlog upon signature of the related procurement contract. Commitments under "umbrella" or "framework" agreements by governmental customers are not included in backlog until they are officially notified to EADS.

For civil market contracts, amounts of order backlog reflected in the table below are derived from catalogue prices, escalated to the expected delivery date and, to the extent applicable, converted into Euro (at the corresponding hedge rate for the hedged portion of the flows, and at the year-end spot rate for the non-hedged portion of the flows). The amount of defence-related order backlog is equal to the contract values of the corresponding programs.

Consolidated Backlog for the Years Ended December 31, 2003, 2002 and 2001

	Year Ended December 31, 2003		Year Ended December 31, 2002		Year Ended December 31, 2001	
	Amount in billions of €	Percentage[5]	Amount in billions of €	Percentage[5]	Amount in billions of €	Percentage[5]
Backlog:[1]						
Airbus[2]	141.8	73	140.9	84	156.1	85
Military Transport Aircraft	20.0	11	0.6	0	1.3	1
Aeronautics[3]	9.8	5	10.1	6	13.7	7
Defence & Security Systems[3]	14.3	7	13.5	8	9.1	5
Space[4]	7.9	4	3.9	2	3.8	2
Total Divisional Backlog	193.8	100	169.1	100	184	100
Headquarters/Eliminations	(14.5)		(0.8)		(0.7)	
Total	**179.3**		**168.3**		**183.3**	

[1] Without options.
[2] Based on catalogue prices.
[3] In 2003, the Military Aircraft business unit was transferred from the Aeronautics Division to the DS Division, with a corresponding impact on the backlog of each Division of € 3.2 billion. 2002 figures have been restated to be comparable with 2003.
[4] Astrium consolidated at 100% in 2003; proportionally consolidated at 75% in 2002 and 2001.
[5] Before headquarters/eliminations.

The € 11 billion increase for 2003 order backlog resulted mainly from high level of order intake (€ 61 billion), partially offset by the impact of the weakening U.S. dollar used for conversion. Significant contracts recorded in the backlog in 2003 include the A400M (€ 19.7 billion for 180 aircraft) and Paradigm (€ 3.6 billion) contracts. Airbus' net order intake was 254 aircraft in 2003 (€ 31 billion). In 2003, Airbus received 34 new orders for the A380, bringing the total firm order backlog for the A380 to 129 aircraft. These increases were offset by net foreign currency adjustments to the Airbus backlog of € 19 billion, reflecting the year-end valuation of the non-hedged portion of its order book.

The change in eliminations from 2002 to 2003 mainly relates to the impact of the A400M program on 2003 backlog. Airbus included approximately 70% of the order value in its backlog to reflect its work share of the A400M program. The Military Transport Aircraft ("**MTA**") Division's order backlog included 100% of the value of the A400M order to reflect the Division's prime-contractor responsibility over the program. The double-counting was therefore eliminated in EADS' consolidated order backlog.

The decrease in order backlog from 2001 to 2002 was primarily a result of decreased net order intake at Airbus following the terrorist events of September 11, 2001, as well as the effects of the weakening U.S. dollar used for conversion.

Reflecting the results of Management's efforts to increase revenues from the defence sector to approximately 30% of total revenues over the long term, backlog in the defence sector continues to grow, with Paradigm and the A400M contributing significantly to the 2003 increase.

The table below illustrates the proportion of defence and commercial backlog at the end of each of the past two years.

	Year Ended December 31, 2003		Year Ended December 31, 2002	
	Amount in billions of €[2]	Percentage	Amount in billions of €[2]	Percentage
Backlog:[1]				
Commercial Sector	133	74%	146	87%
Defence Sector	46	26%	22	13%
Total	**179**	**100%**	**168**	**100%**

[1] Without options.

[2] After headquarters/eliminations.

1.1.3.2 Use of EBIT Pre-Goodwill Amortisation and Exceptionals

EADS uses earnings before interest and taxes, pre-goodwill amortisation and exceptionals ("**EBIT***") 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, impairment losses, and dilution gains from the formation of Airbus S.A.S. and MBDA. It does not correspond to the definition of extraordinary items under IFRS.

Set forth below is a table reconciling EADS' income from operating activities (as reflected in EADS' consolidated statement of income) with EADS' EBIT*.

	Year ended December 31,		
in €m	2003	2002	2001
Income from operating activities	561	160	2,514
Income from investments	186	87	(342)
Dilution gain Airbus, MBDA	0	0	(2,794)
Goodwill amortisation and impairment losses	567	936	1,466
Exceptional depreciation (fixed assets)	214	227	260
Exceptional depreciation (financial assets)	0	0	315
Exceptional depreciation (inventories)	15	16	275
EBIT pre-goodwill amortisation and exceptionals	**1,543**	**1,426**	**1,694**

1.1.3.3 EBIT Performance by Division*

Set forth below is a breakdown of EADS' consolidated EBIT* by division for the past three years. To facilitate comparison of 2003 and 2002 performance in light of the transfer in 2003 of the Military Aircraft business unit from the Aeronautics Division to the DS Division, 2002 EBIT* figures for the two divisions have been adjusted accordingly, presenting EBIT* as if the transfer had occurred on January 1, 2002. Pre-adjustment 2002 EBIT* for the two divisions is also presented for purposes of comparison with 2001.

in €m	Year ended December 31, 2003	Year ended December 31, 2002		Year ended December 31, 2001
		Adjusted	*Unadjusted*	
Airbus	1,353	1,361	*1,361*	1,655
Military Transport Aircraft	30	(80)	*(80)*	1
Aeronautics	217	180	*261*	308
Defence and Security Systems	171	122	*40*	(79)
Space [1]	(400)	(268)	*(268)*	(222)
Subtotal	1,371	1,315	*1,314*	1,663
HQ/Consolidation[2]	172	111	*112*	31
EADS	1,543	1,426	*1,426*	1,694

[1] Astrium consolidated at 100% in 2003; proportionally consolidated at 75% in 2002 and 2001.

[2] HQ/Consolidation primarily includes results from headquarters, which mainly includes income from the investment in Dassault Aviation.

2003 compared to 2002. EADS' consolidated EBIT* increased to € 1.5 billion for 2003 from € 1.4 billion for 2002. The increase primarily reflects the ramp-up of defence programs at the DS Division and the Aeronautics Division and, to a lesser extent, at the MTA Division. Significant losses at the Space Division partially offset these increases.

Airbus' EBIT* remained relatively unchanged at € 1.4 billion for 2003, reflecting the roughly equivalent number of deliveries (305 in 2003 – of which 302 were recognized in revenues, as compared to 303 in 2002). The positive effects of improved margins resulting from a more favourable product mix mostly offset the negative impact of higher research and development costs for the A380 program. The EBIT* margin pre-research and development of 16.7% reflects the cost benefits of Airbus' built-in manufacturing flexibility. See "Part 2/1.1.2 Airbus – Production – Adaptability to Changes in Demand" for further discussion of built-in manufacturing flexibility.

Higher margins on military derivatives aircraft (e.g., the multi-role tanker program) and reduced research and development costs contributed to the MTA Division's 2003 EBIT* of € 30 million. This result represents a € 110 million improvement from the 2002 negative EBIT* of € 80 million, which included the € 54 million write-off of assets relating to the Do 728 program.

The effect on cost structures resulting from restructuring measures at the DS Division, as well as increased deliveries of missiles and combat aircraft, led to a 40% increase of the Division's EBIT* from € 122 million for 2002 to € 171 million for 2003.

Strong results at Eurocopter, mostly relating to the ramp-up of the NH90 and Tiger programmes, led to a 2003 EBIT* at the Aeronautics Division of € 217 million, a 21% increase over 2002 EBIT* of € 180 million.

Headquarters also contributed € 172 million to EADS' consolidated EBIT* for 2003, as compared to € 111 million for 2002, resulting primarily from the € 114 million increase in results from EADS' investment in Dassault Aviation. The increase includes a € 77 million catch-up of prior-year income of Dassault Aviation, in accordance with IFRS. See "Notes to the Consolidated Financial Statements – Note 13: Investments in Associates, Other Investments and Long-term Financial Assets".

These increases to EADS' consolidated 2003 EBIT* were partly offset by a € 400 million negative EBIT* at the Space Division, resulting from (i) expenses and provisions of € 288 million relating to the previously announced restructuring programs, (ii) asset depreciation at Astrium and (iii) further provisioning for program cost overruns.

The impact of the year-to-year change in average hedge rates for net foreign currency exposure from 2002 (€-U.S $ 0.967) to 2003 (€-U.S. $ 0.969) had a non-material impact (negative € 26 million) on EADS' consolidated EBIT* for 2003.

2002 compared to 2001. Consolidated EBIT* for EADS reached € 1.4 billion for 2002, a decrease of € 0.3 billion from 2001. The decrease reflected the downturn in the commercial aviation market, partly offset by growth in the defence sector.

The restructuring efforts in the defence business contributed to positive EBIT* of € 40 million (unadjusted) at the DS Division, as compared to negative EBIT* of € 79 million for 2001. In addition to the turnaround at the DS Division, EADS headquarters, after significant downsizing of the workforce in 2001 and 2002, achieved substantial cost savings in 2002, thus boosting its 2002 EBIT*.

Offsetting these positive items were effects stemming from the difficulties facing EADS' commercial markets. Following the insolvency of Fairchild Dornier in 2002, the MTA Division wrote off € 54 million of assets relating to the Do 728 program in which it was a risk sharing partner.

The Space Division reported steeper losses than for 2001, amounting to € 268 million for 2002. These losses related primarily to further restructuring at Astrium, the continued impact of a market downturn in commercial telecommunications (including the cancellation of one satellite), program cost overruns and further investment depreciations.

Airbus suffered from weakening passenger traffic and the resulting downturn in world commercial aircraft deliveries; higher research and development costs for the A380 and reduced deliveries of aircraft (325 in 2001; 303 in 2002) limited the profitability of Airbus in 2002. However, further cost reductions and built in production rate flexibility partially offset these factors and allowed Airbus to achieve an EBIT* margin pre-research and development for 2002 of 15.6%, as compared to 15% in 2001.

EBIT* at the Aeronautics Division decreased slightly, from € 308 million for 2001 to € 261 million (unadjusted) for 2002. This decrease was mostly attributable to higher R&D, selling, marketing and functional costs in the military aircraft business, and reduced aerostructure/maintenance activity as a result of the downturn in the commercial industry.

Hedging Impact on EBIT*. Nearly two-thirds of EADS' consolidated revenues in 2003 were received in currencies other than the Euro. Given the long-term nature of EADS' business cycles (evidenced by its multi-year backlog), the Company hedges its net foreign exchange exposure to mitigate the impact of exchange rate fluctuations on its EBIT*. See "– 1.1.7 Management of Market Risks – Exchange Rate Risk" and "Part 2/1.5.1 Market Risks – Exposure to Foreign Currencies". During 2003, hedges covering approximately U.S.$ 9.6 billion of EADS' U.S. dollar-denominated revenues matured. In 2003, the compounded conversion rate at which hedged U.S. dollar-denominated revenues were accounted for was €-U.S. $ 0.97, virtually unchanged from 2002. Consequently, there was no material exchange rate-related variance in EBIT*.

It is expected that the hedge book will increase in coming years in line with the forecasted growth in demand for aircraft and the corresponding impact on future deliveries combined with the active hedging policy of EADS. The conversion rates of the new hedges will reflect the state of the U.S. Dollar versus the Euro at the time such hedges are entered into.

The tables below set forth the notional amount of foreign exchange hedges in place as of December 31, 2003, and the U.S. dollar rates applicable to corresponding EBIT*.

(in billions of U.S. $)	2004	2005	2006	2007	2008	2009	2010	2011	Total
Total Hedges	**9.6**	**8.7**	**8.0**	**6.4**	**5.4**	**3.1**	**1.1**	**0.4**	**42.7**
of which €-U.S. $	*8.1*	*7.3*	*6.6*	*5.2*	*4.5*	*2.5*	*0.9*	*0.3*	*35.4*
of which £-U.S. $	*1.5*	*1.5*	*1.4*	*1.1*	*1.0*	*0.6*	*0.2*	*0.1*	*7.3*
Forward Rates									
€-U.S. $	0.96	0.97	0.99	0.99	0.99	1.02	1.04	1.13	
£-U.S. $	1.54	1.49	1.49	1.48	1.48	1.50	1.53	1.54	

Restructuring. Since its formation in 2000, EADS has implemented, and continues to implement, a number of restructuring plans to further enhance its competitive position in the challenging markets in which it operates. Total restructuring charges of € 362 million were recorded in the 2003 consolidated statement of income. This included new provisions and current year charges primarily related to (i) headcount reductions, divisional budgetary constraints at the Space Division (€ 288 million for 2003 as compared to € 105 million for 2002); (ii) headcount reductions and early retirements at the DS Division (€ 50 million for 2003); and (iii) other restructuring provisions relating to the MTA Division (€ 17 million) and the Aeronautics Division (€ 7 million).

The related restructuring burden is accounted for both as a provision and as other liabilities.

1.1.4 EADS Results of Operations

The following table sets forth a summary of the consolidated statements of income of EADS for the twelve-month periods indicated.

Consolidated Statements of Income for the Years Ended December 31, 2003, 2002 and 2001

in €m, except for EPS	Year ended December 31, 2003	2002	2001
Revenues	30,133	29,901	30,798
Cost of sales	(24,594)	(24,465)	(25,440)
Gross margin	**5,539**	**5,436**	**5,358**
Selling and administrative expenses	(2,162)	(2,251)	(2,186)
Research and development expenses	(2,189)	(2,096)	(1,841)
Other income	196	248	3,024
Other expense[1]	(256)	(241)	(375)
Goodwill amortisation & related impairment losses[1]	**(567)**	**(936)**	**(1,466)**
Income from operating activities	561	160	2,514
Income (loss) from investments	**186**	**87**	**(342)**
Interest income (expense)	(203)	(81)	63
Other financial result	148	21	(234)
Income taxes	(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 (in €)	**0.19**	**(0.37)**	**1.70**

[1] For purposes of this discussion, the presentation of the summary consolidated statements of income differs from the actual consolidated statements of income, in which "goodwill amortisation & related impairment losses" is included within the line item "other expense".

Set out below are year-to-year comparisons of results of operations, based upon EADS' consolidated statements of income.

Consolidated Revenues

Consolidated revenues for EADS for 2003 reached € 30.1 billion, a slight increase from € 29.9 billion for 2002. Excluding the effects of currency fluctuations on the non-hedged portion of EADS' revenues, the increase would have been nearly 6%. 2002 consolidated revenues were 3% lower than the € 30.8 billion of consolidated revenues for 2001.

Set forth below is a breakdown of EADS' consolidated revenues by division for the past three years. To facilitate comparison of 2003 and 2002 revenues in light of the transfer in 2003 of the Military Aircraft business unit from the Aeronautics Division to the DS Division, 2002 revenue figures for the two divisions have been adjusted accordingly, presenting revenues as if the transfer had occurred on January 1, 2002. Pre-adjustment 2002 revenues for the two divisions are also presented for purposes of comparison with 2001.

in €m	Year ended December 31, 2003	Year ended December 31, 2002 Adjusted	*Unadjusted*	Year ended December 31, 2001
Airbus	19,048	19,512	*19,512*	20,549
Military Transport Aircraft	934	524	*524*	547
Aeronautics	3,803	3,834	*5,304*	5,065
Defence and Security Systems	5,165	4,770	*3,306*	3,345
Space [1]	2,424	2,216	*2,216*	2,439
Subtotal	**31,374**	**30,856**	**30,862**	**31,945**
HQ/Consolidation[2]	(1,241)	(955)	*(961)*	(1,147)
EADS	30,133	29,901	*29,901*	30,798

[1] Astrium consolidated at 100% in 2003; proportionally consolidated at 75% in 2002 and 2001.

[2] HQ/Consolidation includes, in particular, adjustments and eliminations for intercompany transactions and revenues from leases of office space.

Airbus

2003 compared to 2002. Airbus' 2003 consolidated revenues decreased by 2.4%, to € 19 billion from € 19.5 billion for 2002. This decrease primarily reflects the negative effect of the weakening U.S. dollar. The changing Euro-U.S. dollar exchange rate (average spot rate of €-U.S. $ 1.13 in 2003 compared to €-U.S. $ 0.95 in 2002) translated into a negative € 1.5 billion impact on the non-hedged portion of Airbus' 2003 consolidated revenues. For a discussion of the impact of exchange rate variations on EADS' results of operations and EADS' hedging policy, see "– 1.1.2 Critical Accounting Considerations, Policies and Estimates – Accounting for Hedged Transactions in the Financial Statements", "– 1.1.7 Management of Market Risks – Exchange Rate Risk" and "Part 2/1.5.1 Market Risks – Exposure to Foreign Currencies".

Offsetting the negative impact of the weaker U.S. dollar was the positive impact of a more favourable mix of aircraft being delivered in 2003 as compared to 2002. As in 2002, most of the deliveries in 2003 were for single-aisle A319/A320/A321 aircraft. Airbus delivered 233 units of this type of aircraft in 2003, as compared with 236 in 2002. However, deliveries of long range aircraft increased from 58 in 2002 to 64 in 2003, including 23 of the higher-priced A340-500/600 "stretched" versions (as compared to 8 A340 stretched versions delivered in 2002).

2002 compared to 2001. Airbus consolidated revenues were € 19.5 billion for 2002, a decrease of € 1.0 billion from 2001. This decrease was attributed mostly to the reduction in aircraft deliveries from 325 in 2001 to 303 in 2002, as well as to the weaker U.S. Dollar (average spot rate of €-U.S. $ 0.95 in 2002, as compared to €-U.S. $ 0.90 in 2001). As in 2001, most of the deliveries were for single-aisle A319/A320/A321 aircraft. Airbus delivered 236 units of this type of aircraft in 2002, compared with 257 in 2001.

Set forth below is a breakdown of Airbus' deliveries by aircraft type for the past three years.

number of aircraft	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Single Aisle	233	236	257
Widebody	8	9	11
Long-Range	64	58	57
thereof "Stretched"	*23*	*8*	*0*
Total	**305** [1]	**303**	**325**

[1] For 2003, revenues were recognized in the consolidated statement of income for only 302 of the 305 planes delivered.

Military Transport Aircraft

Consolidated revenues of the MTA Division increased by 78%, from € 0.5 billion for 2002 to € 0.9 billion for 2003. The € 0.4 billion increase in revenues relates primarily to the attainment of the first development milestones for the A400M program (€ 0.3 billion) and growth in the mission aircraft business.

2002 revenues decreased slightly from € 0.5 billion for 2001. While deliveries of the CN-235 in 2002 increased to 8 units from 4 in 2001 (plus 2 C-212 aircraft), delays on the A310 VIP program and lower sales of its C-295 SAF aircraft in 2002 offset these gains.

Set forth below is a breakdown of the MTA Division's deliveries by aircraft type for the past three years.

number of aircraft	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
C-212	2	0	2
CN-235	7	8	4
C-295	5	2	3
Total	**14**	**10**	**9**

Aeronautics

2003 consolidated revenues of € 3.8 billion at the Aeronautics Division remained unchanged from the Division's 2002 consolidated revenues. Increased revenues generated by Eurocopter's customer support services and the recording of milestone payments for the NH90 and Tiger helicopters offset the effect of fewer helicopter deliveries in 2003. Eurocopter's revenue increase was offset by the impact of lower deliveries at ATR and Socata.

Consolidated revenues increased by 5% from 2001 (€ 5.1 billion) to 2002 (€ 5.3 billion, unadjusted), primarily as a result of Eurocopter's increased level of helicopter deliveries in 2002 (367 compared to 335 in 2001) and customer support services. This increase was partially offset by the impact of the downturn in the commercial airline industry on the Division's aerostructure businesses.

Set forth below is a breakdown of the Aeronautics division's deliveries by product type for the past three years.

number of aircraft	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Eurocopter	297	367	335
ATR	12	19	20
EADS Socata	49	105	92
EFW/Conversions	8	6	6

Defence & Security Systems

The DS Division generated consolidated revenues of € 5.2 billion for 2003, an increase of 8% over 2002 revenues of € 4.8 billion. The increase was primarily due to the ramp-up of the MICA, ASRAAM and Storm Shadow missile programs and to the first deliveries of Eurofighters to Spain and Germany.

As compared to 2001, the DS Division's 2002 revenues remained relatively unchanged at € 3.3 billion (unadjusted). The accounting impact of the decreases in the investment in AMM following the MBDA transaction at the end of 2001 were offset by (i) the full-year consolidation of Cogent in 2002 and (ii) an approximate 10% revenue growth across all business units except MBDA. See "– 1.1.2 Critical Accounting Considerations, Policies and Estimates – Scope of and Changes in Consolidation Perimeter".

Set forth below is a table showing the number of Eurofighter deliveries by EADS for the past three years.

number of aircraft	Year ended December 31, 2003	Year ended December 31, 2002[1]	Year ended December 31, 2001[1]
Eurofighter	7	0	0

[1] The first Eurofighter deliveries were scheduled for 2003.

Space

The consolidation effect of the 2003 acquisition of the 25% of Astrium not previously owned by EADS translated into a 9% increase in consolidated revenues for the Space Division, from € 2.2 billion for 2002 to € 2.4 billion for 2003. Excluding the consolidation effect, the Division's revenues would have decreased to € 2.0 billion for 2003, reflecting the termination of the Ariane 4 program and the continuing downturn in the commercial telecommunications satellite market.

The Space Division's consolidated revenues decreased by 9%, to € 2.2 billion for 2002 from € 2.4 billion for 2001. The decrease was principally related to (i) production-related difficulties with Astrium's civil telecommunications programs and (ii) slower than anticipated ramp-up of the Ariane V program at EADS Space Transportation.

Set forth below is a breakdown of the Space Division's deliveries of commercial telecommunications satellites for the past three years.

(number of units)	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Commercial Telecommunications Satellites	1	2	0

Consolidated Cost of Sales

Consolidated cost of sales remained relatively unchanged at € 24.6 billion for 2003 as compared to € 24.5 billion for 2002. This primarily reflects the stable delivery levels at Airbus (302 in 2003 versus 303 in 2002). Significant increases in cost of sales at (i) the Space Division, reflecting the 100% consolidation of Astrium (€ 0.3 billion) and (ii) the DS Division, reflecting the ramp-up of Eurofighter and missile system production (€ 0.3 billion) were offset by a € 0.5 billion decrease in cost of sales at Airbus primarily due to the effects of the weaker U.S. dollar.

Consolidated cost of sales decreased 4% from € 25.4 billion for 2001 to € 24.5 billion for 2002. This change mainly reflects the reduction of deliveries at Airbus as well as the significant decrease in depreciation of the fair value adjustments to inventories stemming from the formation of EADS (€ 275 million for 2001 compared to € 16 million for 2002). See "– 1.1.2 Critical Accounting Considerations, Policies and Estimates – Fair Value Adjustments".

Consolidated Selling and Administrative Expenses

For 2003, consolidated selling and administrative expenses decreased slightly from € 2.3 billion for 2002 to € 2.2 billion for 2003, reflecting the results of realised cost reductions at headquarters and other ongoing effects from restructuring of EADS' general and administrative activities.

2002 consolidated selling and administrative expenses increased slightly from € 2.2 billion in 2001. This increase was principally due to increases in staffing and higher insurance premiums at Airbus and the Aeronautics Division. However, ongoing effects from restructuring of general and administrative activities, such as realised cost reductions at headquarters offset these increases.

Consolidated Research and Development Expenses

EADS' consolidated research and development expenses increased by 4%, from € 2.1 billion for 2002 to € 2.2 billion for 2003. This increase primarily relates to ongoing programs at Airbus (€ 1.8 billion for 2003). Expenses at Airbus relating to the A380 program reached € 1.1 billion for 2003, an increase of € 0.3 billion from 2002 levels. From 2001 through 2003, cumulative research and development expenses on the A380 program amount to € 2.3 billion. Further research and development expenses totalling € 2.1 billion are forecasted to be incurred from 2004 through 2006, in line with previous forecasts, taking into account the impact of the application of IAS 38. Research and development expenses related to the final phases of the flight certification of the A340 500/600 program, as well as further specific enhancements on existing programs, also contributed to the overall Airbus R&D expenses for the year. Other non-Airbus consolidated R&D expenses totalled € 370 million – a reduction of approximately € 40 million from 2002. See "– 1.1.2 Critical Accounting Considerations, Policies and Estimates – Research and Development Expenses" for an explanation of the impact of the accounting change related to the capitalisation of certain development costs in accordance with IAS 38.

EADS' consolidated research and development expenses increased by 14%, from € 1.8 billion for 2001 to € 2.1 billion for 2002. This increase primarily relates to ongoing programs at Airbus (€ 1.7 billion for 2002). Expenses at Airbus relating to the A380 program reached € 0.8 billion for 2002, an increase of € 0.4 billion from 2001 levels. From 2001, cumulative research and development expenses on the A380 program amount to € 1.2 billion. Although reduced by € 0.1 billion from 2001 levels, R&D expenses related to flight certification of the A340 500/600 program obtained in December 2002 (€ 0.2 billion for 2002), as well as further enhancements on existing programs, also contributed to the overall R&D expenses for the year. Other than increased R&D expenses at the Aeronautics Division primarily related to the A380 program, non-Airbus related consolidated R&D expenses remained relatively unchanged from 2001. Excluding Airbus, EADS' other divisions incur approximately € 0.4 billion annually in consolidated R&D expenses related to ongoing businesses.

Consolidated Other Income and Other Expense

Consolidated other income and other expense represents gains and losses on disposals of investments, income from rental properties and certain provisions. For 2003, the net of other income and other expense was negative € 60 million as compared to positive € 7 million for 2002. € 63 million from the disposal of EADS' 50% share in Aircelle to Snecma were included in consolidated other income for 2002.

For 2002, the net of other income and other expense decreased to € 7 million from € 2.6 billion for 2001. Non-recurring dilution gains arising from the creation of Airbus S.A.S (€ 2.5 billion) and MBDA (€ 0.3 billion) were included in consolidated other income for 2001. See "– 1.1.2 Critical Accounting Considerations, Policies and Estimates – Dilution Gains". Excluding the effect of 2001 dilution gains, net other income increased by € 0.2 billion, reflecting the Aircelle disposal, the sale of MDTV to IBM, and lower expenses at headquarters in 2002.

Consolidated Amortisation of Goodwill and Impairment Losses

For 2003, the consolidated amortisation of goodwill decreased to € 0.6 billion from € 1.0 billion for 2002. The € 0.4 billion decrease from 2002 reflects the impairments taken in 2002 for assets held within the Space Division (€ 350 million). By contrast, no assets were impaired in 2003.

For 2002, consolidated amortisation of goodwill and impairment losses decreased by 36%, to € 1.0 billion from € 1.5 billion for 2001. Excluding impairment losses, consolidated amortisation of goodwill decreased by € 0.1 billion, from € 0.7 billion for 2001 to € 0.6 billion for 2002. This change is the result of the decrease in the net book value of goodwill resulting from the 2001 impairment charges. See "– 1.1.2 Critical Accounting Considerations, Policies and Estimates – Impairment of Assets". Goodwill at the Space Division was subject to a further impairment test, leading to a charge of € 0.4 billion for 2002.

	2003		2002		2001	
in €m	Goodwill amortisation and impairment losses	Thereof impairment of goodwill	Goodwill amortisation and impairment losses	Thereof impairment of goodwill	Goodwill amortisation and impairment losses	Thereof impairment of goodwill
Airbus	373	–	373	–	372	–
MTA Division	–	–	–	–	–	–
Aeronautics[1]	7	–	54	–	51	–
DS[1]	150	–	107	–	739	580
Space [2]	33	–	397	350	255	210
HQ	4	–	5	–	49	–
EADS	**567**	**–**	**936**	**350**	**1,466**	**790**

[1] Changes from 2002 to 2003 reflect in part the transfer of the Military Aircraft business unit from the Aeronautics Division to the DS Division.
[2] Astrium consolidated at 100% in 2003; proportionally consolidated at 75% in 2002 and 2001.

Consolidated Income (Loss) from Investments

Consolidated income (loss) from investments principally includes results from companies accounted for under the equity method and the results attributable to non-consolidated investments. For 2003, EADS recorded € 186 million in consolidated investment income as compared to € 87 million for 2002. The € 99 million increase is mainly due to a € 77 million catch-up of prior year income related to EADS' investment in Dassault Aviation. In 2003, EADS restated Dassault Aviation's 2002 and 2003 IFRS actual financial performance – in previous periods, EADS had relied on estimated financial performance reported under French GAAP. Including the IFRS restatement, investment income for the 46% stake in Dassault Aviation amounted to € 225 million as compared with € 111 million for 2002. See "Part 2/1.1.7 Investments – Dassault Aviation". These increases were partially offset by depreciation of various non-consolidated investments.

For 2002, EADS recorded € 87 million in consolidated investment income as compared to a € 342 million consolidated loss for 2001. This change primarily reflects the € 315 million impairment charge taken on civil telecommunications investments (Nortel joint ventures, carried at cost since October 1, 2001), and a € 63 million write-off of commercial space investments (Nahuelsat) in 2001. As in 2001, EADS accounted for a further € 29 million write-down of its investment in Arianespace in 2002. Following the write-down, this participation had a book value of zero. Dassault Aviation contributed € 111 million of investment income in 2002, unchanged from 2001.

Consolidated Interest Income (Expense)

Consolidated interest income (expense) reflects the net of interest income and expenses arising from financial assets or liabilities. For 2003, EADS reported a consolidated net interest expense of € 203 million, as compared to € 81 million of consolidated net interest expense for 2002. This change is principally due to (i) higher interest charges for 2003 on European government refundable advances received; and (ii) the increasing spread between interest received on positive balances invested in short-term liquid instruments and interest paid on longer-term debt . See "– 1.1.6 Liquidity and Capital Resources – Consolidated Financial Liabilities".

For 2002, EADS reported a consolidated net interest expense of € 81 million, as compared to € 63 million of consolidated net interest income for 2001. This change is principally due to (i) higher interest charges for 2002 on European government refundable advances received (€ 45 million expense increase primarily related to the A380); (ii) an increasing interest rate difference between the remuneration of cash deposits and the cost of debt; and (iii) reduced average net cash position for 2002 as compared to 2001.

Consolidated Other Financial Result

Consolidated other financial result increased to € 148 million for 2003 from € 21 million for 2002. This change primarily results from a positive mark-to-market valuation of currency hedges that, for accounting purposes, are deemed to be embedded in U.S. dollar-denominated purchase orders of equipment, where the U.S. dollar is not conclusively the currency in which the price of the related equipment is routinely denominated in international commerce.

Consolidated other financial result increased to € 21 million for 2002 from € (234) million for 2001. This change primarily results from a € 117 million income from the mark-to-market revaluation and maturing of remaining macro hedges in 2002, as compared to a € 153 million loss with respect to such macro hedges in 2001.

In 2001, postponed deliveries of commercial aircraft related to the events of September 11, 2001 resulted in a mismatch between hedged positions and expected cash flows. A roll-over plan was carried out in 2002 and 2003 to rephase the maturities of the affected hedges with new delivery dates. The roll-over plan was completed as of December 31, 2003. Had this roll-over plan not been implemented, the affected hedges would have been deemed cancelled for accounting purposes. As the affected hedges had a negative mark-to-market value at the end of 2001, cancellation would have had a negative impact on consolidated other financial result. See "– 1.1.2 Critical Accounting Considerations, Policies and Estimates – Accounting for Hedged Transactions in the Financial Statements".

Consolidated Income Taxes

See "Notes to the Consolidated Financial Statements – Note 10: Income Taxes".

Consolidated Minority Interest

Consolidated minority interest was € (66) million in 2003 as compared to € 33 million in 2002, reflecting primarily the claims by BAE SYSTEMS and Finmeccanica on the results of Airbus and MBDA, respectively.

Consolidated Net Income

As a result of the factors discussed above, EADS recorded a consolidated net income of € 152 million for 2003 as compared to consolidated net loss of € 299 million for 2002 and consolidated net income of € 1,372 million for 2001.

Earnings Per Share (EPS)

Earnings per share increased by € 0.56 per share from € (0.37) per share in 2002 to € 0.19 per share in 2003. The number of outstanding shares at the end of December 31, 2003 was 800,957,248. The denominator used in EPS was 800,957,248 shares, the average number of outstanding shares during 2003.

The reduction from 2001 EPS of € 1.70 per share to € (0.37) per share in 2002 resulted from the net loss in 2002, as well as from the effects of the repurchase of 10,241,252 shares offset by the issuance of 2,022,939 shares through the October 2002 employee share offering plan. See "Part 2/3.3.7 Shareholdings and Voting Rights – Purchase by the Company of its Own Shares" and "2.3.2 Employee Profit Sharing and Incentive Plans – Employee Share Offering".

1.1.5 Statement of Changes in Consolidated Shareholders' Equity

The following table sets forth a summary of the consolidated statement of changes in shareholders' equity for the period January 1, 2003 through December 31, 2003.

in €m

Balance at December 31, 2002	**12,765**
Capital increase	21
Net income	152
Cash distribution to shareholders	(240)
Purchase of treasury shares	(31)
Accumulated other comprehensive income	3,482
Balance at December 31, 2003	**16,149**

The increase in consolidated shareholders' equity in 2003 relates primarily to the effects of changes in accumulated other comprehensive income ("**AOCI**"). For a discussion of the other line items impacting consolidated shareholders' equity, see "Notes to the Consolidated Financial Statements – Note 18: Shareholders' Equity".

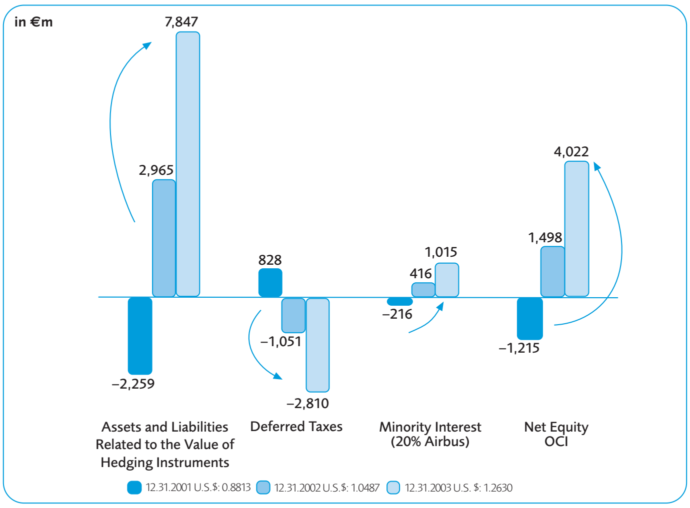
In 2003, AOCI increased by € 3.5 billion. Changes in AOCI were due to (i) the positive variation (€ 2.5 billion), after accounting for deferred taxes and minority interest, of the year-end mark-to-market valuation of that portion of EADS' hedge portfolio qualifying for hedge accounting under IAS 39, (ii) positive currency translation adjustments generated by the consolidation of subsidiaries not reporting their financial statements in Euro (€ 0.8 billion) and (iii) positive changes in the fair value of securities (€ 0.2 billion).

At December 31, 2003, the notional amount of the outstanding portfolio of hedges qualifying for IAS 39 hedge accounting treatment ("**micro hedges**") amounted to approximately U.S.$ 42.7 billion hedged against the Euro and the Pound Sterling. The year-end mark-to-market valuation of EADS' portfolio of micro hedges resulted in a positive valuation change of € 4.9 billion from December 31, 2002 based on a closing rate of €-U.S. $ 1.26.

Micro hedges with positive pre-tax mark-to-market values are included in other assets, while micro hedges with negative pre-tax mark-to-market values are included in provisions for financial instruments. Year-to-year changes in the mark-to-market value of micro hedges are recognised as adjustments to AOCI. These adjustments to AOCI are net of corresponding changes to (i) deferred tax assets (for micro hedges with negative mark-to-market valuations) and deferred tax liabilities (for micro hedges with positive mark-to-market valuations) and (ii) minority interests (where the hedge contract is held by an entity that is not wholly owned by EADS, e.g. Airbus).

Set out below is a graphic presentation of micro hedge related movements in AOCI over the past three years.

Graph 4:



As a result of the positive change in the fair market valuation of the micro hedge portfolio in 2003, AOCI-related other assets increased to € 7.8 billion for 2003 from € 3.0 billion for 2002. The corresponding € 1.8 billion tax effect increased the AOCI-related deferred tax liability to € 2.8 billion at December 31, 2003.

A € 0.6 billion adjustment to minority interest was recorded to reflect mainly BAE SYSTEMS' 20% share of the positive after-tax mark-to-market valuation change in the Airbus hedge portfolio. As a result of this adjustment, AOCI-related minority interest was € 1.0 billion at December 31, 2003 as compared to € 0.4 billion at December 31, 2002.

A stronger Euro spot rate versus other currencies at December 31, 2003 was also reflected in the impact of currency translation adjustments on AOCI of positive € 0.8 billion.

1.1.6 Liquidity and Capital Resources

The Group's policy is to maintain sufficient cash and cash equivalents at all times to meet its present and future cash requirements. This policy objective is met through:

- implementation of measures designed to generate free cash flow;
- developing and maintaining access to the capital markets; and
- containment of exposure to customer financing.

EADS benefits from a strong cash position, with € 7.8 billion of consolidated gross cash (including available-for-sale securities of € 0.5 billion) at December 31, 2003. This cash position is further supported by a € 2.85 billion syndicated back-up facility and a € 0.7 billion credit line from the European Investment Bank ("**EIB**"). These facilities remained undrawn as at December 31, 2003.

The factors affecting EADS' cash position, and consequently its liquidity risk, are discussed below.

1.1.6.1 Movement of Net Cash Position

EADS generally finances its manufacturing activities and product development programs, and in particular the development of new commercial aircraft, through a combination of flows generated by operating activities, customers' advance payments, risk-sharing partnerships with sub-contractors and European government refundable advances. In addition, EADS' military activities benefit from government-financed research and development contracts. If necessary, EADS may raise funds in the capital markets.

EADS calculates its consolidated net cash position as the difference between (i) cash, cash equivalents and securities and (ii) financial liabilities (as recorded in the consolidated balance sheet). In 2003, the 2002 consolidated net cash position was restated to reflect a change in the accounting for financial debts relating to certain sales financing transactions secured by defeased bank deposits. See "– Consolidated Financial Liabilities".

The following table sets forth the variation of EADS' consolidated net cash position over the periods indicated.

	Year ended December 31	
in €m	2003	2002
Net cash at beginning of period	**2,370**	**2,679**
Gross cash flows from operations	2,690	1,862
Changes in working capital	2,019	804
Cash used for investing activities	(3,659)	(2,953)
Thereof industrial capital expenditures	(2,672)	(2,213)
Thereof customer financing	(1,093)	(865)
Thereof others	(106)	125
Free Cash Flows[(1)]	**1,050**	**(287)**
Thereof Free Cash Flows before customer financing	2,143	578
Treasury share buy-back	(31)	(156)
Cash distribution to shareholders	(240)	(403)
Capital increase	21	16
Other changes in financial position	(65)	521
Consolidated net cash position at December 31	**3,105**	**2,370**

(1) Does not reflect (i) investments in, or disposals of, available-for-sale securities (disposal of € 336 million for 2003; investment of € 264 million for 2002), which are classified as cash and not as investments solely for the purposes of this net cash presentation or (ii) changes in cash from change in consolidation (€ (152) million for 2002).

The consolidated net cash position at December 31, 2003 was € 3.1 billion, a 31% increase from December 31, 2002 (on a comparable basis after accounting for the netting of defeased bank deposits against the corresponding financial liabilities). Efforts at Airbus to limit the growth of customer financing exposure and a Company-wide focus on cash management, combined with the maturing of remaining unfavorable "old" macro hedges, newly received European government refundable advances (primarily related to the A380 program) and sustained levels of pre-delivery payments from customers were offset by continued research and development costs on the A380 program, substantial investments in fixed assets, as well as cash payments to shareholders in 2003.

Gross Cash Flows from Operations

Gross cash flow from operations in 2003 of € 2.7 billion reflects the higher earnings generated in 2003 combined with fewer maturing unfavourable "old" macro hedges than in 2002, corrected for the effect of the following non-cash items recorded in the consolidated statement of income: (i) depreciation and amortisation of fixed assets (€ 2.4 billion) and valuation adjustments (€ 0.3 billion), (ii) a net increase in provisions relating to restructuring efforts at the Space Division, (iii) income from investments in associates (e.g., Dassault Aviation: € (0.2) billion) and (iv) deferred tax income (€ (0.1) billion).

In 2003, the maturing of remaining "old" macro hedges that had been reclassified as micro hedges in January 2001, had a negative € 0.2 billion effect on gross cash flows from operations, as compared to a negative € 1.0 billion effect in 2002. No further material impacts on gross cash flow are expected in relation to such hedges. See "– 1.1.2 Critical Accounting Considerations, Policies and Estimates – Accounting for Hedged Transactions in the Financial Statements".

Changes in Working Capital

Working capital is comprised of trade receivables, net inventory, other assets and prepaid expenses netted against trade liabilities, other liabilities and deferred income. Changes in working capital resulted in a € 2.0 billion positive impact on the net cash position for 2003. The main net contributors to the positive working capital variation were (i) a further net inflow of European government refundable advances (€ 0.7 billion for 2003, unchanged from 2002) and (ii) an increase of advance payments from customers (approximately € 1.3 billion in 2003, as compared to € 0.3 billion in 2002). Further contributing to the positive working capital was a reduction of trade receivables and an increase in "other liabilities" relating primarily to certain tax liabilities. These positive items were partly offset by higher inventory build-up of approximately € 0.6 billion before allocation of customer advances.

European Government Refundable Advances. As of December 31, 2003, total European government refundable advances received, recorded on the balance sheet in the line item "other liabilities", amounted to € 4.9 billion, an increase of € 0.7 billion from 2002. Of this amount, (i) € 2.0 billion relate to long-range Airbus aircraft (with approximately € 0.3 billion repaid in 2003 and € 0.1 billion re-valued at the year-end €-£ spot rate), (ii) € 2.0 billion relate to the A380 program (a € 1.0 billion increase from 2002, before adjustment for exchange rate effects). For 2003, new receipts of European government refundable advances totalled € 1.0 billion and reimbursements totalled € 0.3 billion. Related accrued interest payments for 2003 of € 0.2 billion were recorded on the balance sheet in the line item "other liabilities".

Set out below is a breakdown of total amounts of European government refundable advances outstanding, by product/project.

in billions of €	2003
Long Range & Wide Body	2.1
A380	2.2
Eurocopter	0.2
Others	0.4
EADS	**4.9**

Cash used for Investing Activities

Management categorises cash used for investing activities into three components: (i) industrial capital expenditures, (ii) customer financing and (iii) net investments in subsidiaries.

Industrial Capital Expenditures. Industrial capital expenditures (investments in plant, property and equipment) amounted to € 2.7 billion for 2003 as compared to € 2.2 billion for 2002. A380-related capital expenditure totalled € 1.2 billion for 2003, as compared to € 0.9 billion for 2002. See "Part 2/ 1.1.2 Airbus – Products and Services". To date, total A380-related capital expenditures is € 2.4 billion.

The remaining portion of capital expenditures related to other programmes at Airbus of € 0.6 billion (manufacturing facilities and common information technologies systems) and additional programmes in the other divisions of € 0.9 billion, including investments in fixed assets at Paradigm Secure Communication Ltd. Excluding Airbus and Paradigm-related expenditures, EADS' other divisions incur approximately € 0.5 billion annually in capital expenditures related to ongoing businesses. Investments in aircraft leases are included in customer financing, and not in industrial capital expenditures, even though the underlying assets are eventually recorded in property, plant and equipment.

For the period 2004 to 2006, it is estimated that most of EADS' capital expenditure will occur in connection with Airbus activities, such as the ongoing establishment and expansion of production facilities for Airbus aircraft. In particular, the development programme for the A380 very large aircraft will require substantial capital expenditures. See "Part 2/1.1.2 Airbus – Products and Services".

Customer Financing. Net consolidated cash flows corresponding to additions in customer financing amounted to € 1.1 billion for 2003. The Airbus gross addition to customer financing for 2003 amounted to U.S.$ 1.5 billion. See "– Sales Financing".

This increase mainly relates to new finance leases and loans. EADS sold down approximately € 0.2 billion of customer financing exposure in 2003. EADS aims to structure financing so as to facilitate the future sell-down or reduction of its exposure.

The amortisation of existing exposure (primarily amortisation of operating lease aircraft) relating to Airbus and ATR customer financing (approximately € 0.2 billion) is not included in net additions. This amortisation is recorded in the line item "cash flow from operations". Net of the amount of such amortisation, the increase in customer financing is in line with the corresponding increase in gross exposure at constant U.S. dollar exchange rate. See "– Sales Financing" and "Notes to the Consolidated Financial Statements – Note 25: Commitments and Contingencies".

In response to the continued need for financing from its customers, EADS expects to undertake additional outlays in connection with customer financing of commercial aircraft through finance leases and loans, although it intends to keep the amount as low as possible, and expects the net increase of sales financing gross exposure to be below U.S$ 0.9 billion in 2004.

Others. For 2003, the negative € 0.1 billion figure reflects primarily the effects of acquisitions of subsidiaries, namely Dornier GmbH. See "– 1.1.2 Critical Accounting Considerations, Policies and Estimates – Scope of and Changes in Consolidation Perimeter".

Free Cash Flows

As a result of the factors discussed above, positive free cash flows amounted to € 1.0 billion for 2003, as compared to negative € 0.3 billion for 2002. Positive free cash flows before customer financing were € 2.1 billion for 2003 as compared to € 0.6 billion for 2002.

Other Changes in Financial Position

Other changes in financial position represent mainly foreign exchange rate valuation changes on cash and debt instruments. The positive change for 2003 relates primarily to positive valuation changes of U.S. dollar-denominated debt, offset in part by the restructuring of certain debts from "other liabilities" to "financial liabilities" and by the change in net cash from change in consolidation following the first-time consolidation of 100% of Astrium.

Cash and Cash Equivalents

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 paper and other money market instruments which, for cash and cash equivalents, generally have a maturity of less than three months. Therefore, EADS assesses its exposure towards price risk due to changes in interest rates and spreads as minimal. See "– 1.1.7 Management of Market Risks – Interest Rate Risk".

In 2003, the fully automated cross-border cash pooling system (covering France, Germany, Spain, the Netherlands and the U.K.) became operational. A Group-wide implementation of this system to cover entities located in other countries is ongoing. The cash pooling system enhances Management's ability to assess reliably and instantaneously the cash position of each subsidiary within the Group and enables Management to allocate cash optimally within the Group depending upon shifting short-term needs.

At December 31, 2003, the outstanding balance of gross cash and cash equivalents was € 7.8 billion (including € 0.5 billion in available-for-sale securities), as compared to € 6.2 billion (including € 0.8 billion in available-for-sale securities) at December 31, 2002. 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 included in the line item "securities" in the consolidated balance sheet, have been reclassified to the line item "cash and cash equivalents".

Total cash and cash equivalents (including available-for-sale securities) includes the full consolidation of cash at Airbus in an amount of € 1.7 billion. However, EADS' stake therein is only 80%. Similarly, total cash and cash equivalents includes the 50% consolidation of cash at MBDA of € 1.4 billion. However, EADS' stake therein is only 37.5%.

1.1.6.2 Consolidated Financial Liabilities

The following table sets forth the composition of EADS' consolidated financial liabilities, including both short-and long-term debt, as of December 31, 2003:

in €m	December 31, 2003 Not exceeding 1 year	Over 1 year up to 5 years	More than 5 years	Total
Finance Leases [(1)]	82	222	47	351
Bonds	21	42	1,598	1,661
Liabilities to financial institutions	314	505	570	1,389
Loans	84	258	541	883
Other	477	3	3	483
Total	**978**	**1,033**	**2,756**	**4,767** [(2)]

[(1)] This figure reflects the € 1,131 million effect of the netting of defeased bank deposits against sales financing liabilities.

[(2)] Financial liabilities include a non-recourse debt for € 679 million.

The outstanding balance of financial liabilities was € 4.8 billion at December 31, 2003, compared to € 3.8 billion at December 31, 2002. The restatement of 2002 financial liabilities to reflect the netting of defeased bank deposits against certain sales financing liabilities performed in 2003 reduced 2002 financial liabilities by € 1.1 billion, from € 4.9 billion to € 3.8 billion. In 2003, € 1.1 billion of defeased bank deposits were netted against sales financing liabilities. In prior periods, the amounts of the defeased bank deposits were recorded in the line item "financial assets" on the consolidated balance sheet.

The net increase of consolidated financial liabilities of € 0.9 billion from 2002 resulted from (i) the two note issuances under the EMTN program amounting to € 1.5 billion, (ii) additional borrowings of € 0.4 billion (of which € 0.3 billion relates to financing by Paradigm), and (iii) the restructuring of certain European government refundable advances into financial debt (€ 0.2 billion), offset in part by the settlement of bond obligations and the repayment of debt owed to financial institutions totalling € 0.7 billion. A further downward adjustment of € 0.4 billion reflected the currency translation impact of the weakening U.S. dollar on dollar-denominated Financial Liabilities.

Total financial liabilities include the full consolidation of Airbus financial debt for an amount of € 2.7 billion. However, EADS is liable for only 80% of such financial debt incurred after January 1, 2001, in line with its stake in Airbus. See "– Sales Financing".

Overall, Management believes that the maturity profile of the consolidated financial liabilities is prudent and consistent with the structure of EADS' consolidated assets and expected cash flows.

EMTN Programme. In February 2003, EADS launched a € 3 billion Euro Medium Term Note ("**EMTN**") Programme, with a subsequent initial € 1.0 billion issue of a seven year 4.625% Eurobond. In September 2003, EADS issued an additional € 0.5 billion of fifteen year 5.5% fixed rate notes under the EMTN program. The objectives of the two issuances under the EMTN program are to refinance existing debt and to lengthen the maturity profile of the Company's debt. Management believes that the establishment of such financing schemes will enhance its overall presence and standing in the capital markets and increase its flexibility in responding to fluctuating funding requirements.

EADS has a strict policy in place with respect to contractual provisions relating to accelerated repayment of financial debts. It systematically rejects acceleration clauses which are based on a credit rating downgrade or on any non-material measurable event not under the control of EADS. However, the € 2.85 billion back-up facility contains an acceleration clause tied to EADS' debt/equity ratio.

1.1.6.3 Sales Financing

EADS favours cash sales, and encourages independent financing by customers, in order to avoid retaining credit or asset risk in relation to delivered products.

However, 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. Dedicated and experienced teams at headquarters and at Airbus and ATR, respectively structure such financing transactions and closely monitor total EADS finance and asset value exposure and its evolution in terms of quality, volume and cash requirements intensity. EADS aims to structure all financing it provides to customers in line with market-standard contractual terms so as to facilitate any subsequent sale or reduction of such exposure.

In determining the amount and terms of a 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.

More than 40% of the € 4.8 billion of total consolidated financial liabilities as at December 31, 2003, are derived from the funding of EADS' sales financing assets, which are of a long-term nature and have predictable payment schedules. The decrease from 75% of total financial liabilities in 2002 results primarily from the increase in overall financial liabilities due to the 2003 Eurobond issues under the EMTN program. See "– Consolidated Financial Liabilities". The following table presents a breakdown of consolidated financial liabilities related to sales financing:

in €m	Principal Amount Outstanding 2003	2002
Finance Leases[1]	351	420
Liabilities to financial institutions	757	1,266
Loans	866	958
Total Sales Financing Liabilities[1]	**1,974**	**2,644**

[1] These figures reflect the effect (€ 1,131 million in 2003; € 1,146 million in 2002) of the netting of defeased bank deposits against sales financing liabilities.

The amounts of total sales financing liabilities at December 31, 2003 and 2002 reflect the offsetting of sales financing liabilities by € 1.1 billion (for 2003) and € 1.1 billion (for 2002) of defeased bank deposits securing such liabilities. Of the remaining € 2.0 billion total sales financing liabilities at December 31, 2003, € 0.7 billion is in the form of limited recourse debt, where EADS' repayment obligations are limited to its receipts from transaction counterparties. Additionally, a significant portion of financial assets representing non-cancellable customer commitments have terms closely matching those of the related financial liabilities. See "Notes to the Consolidated Financial Statements – Note 20: Financial Liabilities". See also "– 1.1.2 Critical Accounting Considerations, Policies and Estimates – Accounting for Sales Financing Transactions in the Financial Statements".

Sales financing transactions are generally collateralised 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 of each transaction.

EADS classifies the risks arising from its sales financing activities into two categories: (i) Financing Exposure, where the customer's credit – its ability to perform its obligations under a financing agreement – constitutes the risk; and (ii) Asset Value Exposure, where the risk relates to decreases in the future value of the financed aircraft. See also "Part 2/1.5.1 Market Risks – Exposure to Sales Financing Risk".

Financing Exposure. Certain EADS and BAE SYSTEMS group companies retain joint and several liability for sales financing exposure incurred by Airbus prior to the formation of Airbus S.A.S. EADS' exposure to liabilities incurred by Airbus following January 1, 2001, is limited by its status as a shareholder in Airbus S.A.S., of which it owns 80% of the shares. EADS proportionally consolidates only 50% of ATR and shares the risk with its partner, Alenia.

Airbus Financing Exposure as of December 31, 2003 is spread over approximately 231 aircraft, operated at any time by approximately 35 airlines; the breakdown by aircraft type is balanced between A300/310, A320 family and A330/340. In addition, other aircraft related assets, such as spare parts, may also serve as collateral security. 75% of Airbus Financing Exposure is distributed over 9 airlines in 8 countries, not taking backstop commitments into account.

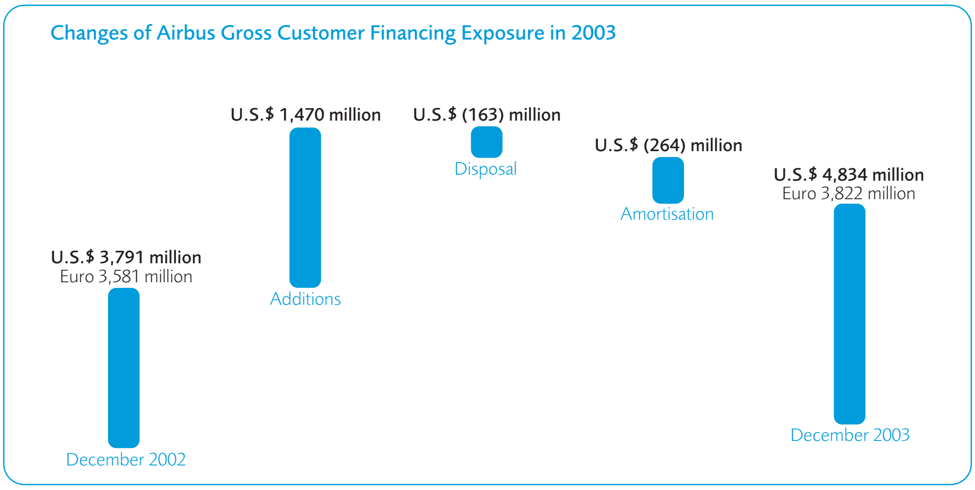
ATR customer exposure as of December 31, 2003 is distributed over 229 aircraft.

Gross Exposure: Gross Financing Exposure is computed as the sum of (i) the net book value of aircraft under operating leases; (ii) the outstanding principal amount of finance leases or loans; and (iii) the net present value of the maximum commitment amounts under financial guarantees.

Gross Financing Exposure from operating leases, financial leases and loans differs from the value of related assets on EADS' balance sheet and related off-balance sheet contingent commitments for the following reasons: (i) assets are recorded in compliance with IFRS, but may relate to transactions where there is limited recourse to Airbus or ATR; (ii) the value of the assets is written down or depreciated on the consolidated balance sheet; (iii) off-balance sheet gross exposure is calculated as the net present value of future payments, whereas the Financial Statements present the total future payments in nominal terms; and (iv) exposure related to AVGs recorded as operating leases in the Financial Statements is categorised under Asset Value Exposure, not Financing Exposure.

Airbus has reduced Gross Financing Exposure by 20% from its 1998 peak of U.S.$ 6 billion, to U.S.$ 4.8 billion (€ 3.8 billion) as of December 31, 2003, while the Airbus fleet in operation has increased from 1,838 aircraft to 3,468 over the same period. Management believes the current level of Gross Financing Exposure enhances Airbus' ability to assist its customers in the context of a tight aircraft financing market.

Graph 5:



ATR 100% has reduced gross exposure by approximately 45% from a peak of U.S.$ 1.8 billion in 1997 to under U.S.$ 1 billion as of December 31, 2003, despite a challenging market for turboprop aircraft.

Net Exposure. Net exposure is the difference between gross exposure and the estimated value of the collateral security. Collateral value is assessed using a dynamic model based on the net present value of expected future rentals from the aircraft in the leasing market and potential cost of default. This valuation model yields results that are typically lower than residual value estimates by independent sources in order to allow for what Management believes is its conservative assessment of market conditions, as well as for repossession and transformation costs. See "– 1.1.2 Critical Acconting Considerations, Policies and Estimates – Accounting for Sales Financing Transactions in the Financial Statements".

The table below shows the transition from gross to net financing exposure (which does not include AVGs) as at December 31, 2002 and 2003.

	Airbus		ATR 50%	
in €m	2003	2002	2003	2002
Financing Gross Exposure	3,822	3,581	403	610
On-balance sheet	3,098	2,690	277	454
Off-balance sheet	724	891	126	156
Estimated collateral value	(2,229)	(2,061)	(365)	(538)
Net exposure before provision	**1,593**	**1,520**	**38**	**72**
Provision/Write-Down for customer financing	(1,593)	(1,520)	(38)	(72)
Residual net exposure	**0**	**0**	**0**	**0**

The € 3.4 billion of on-balance sheet customer financing exposure at Airbus and 50% ATR shown in the table above differs from the € 3.0 billion book value of corresponding assets on EADS' balance sheet (including inventory for € 0.1 bllion). This difference is the result of (i) the consolidation of assets in compliance with IFRS where there is no recourse to Airbus (€ (0.7) billion) and (ii) the depreciation and write down of the related assets (€ 1.1 billion). See "Notes to the Audited Consolidated Financial Statements – Note 12: Property, Plant and Equipment" and "Note: 13: Investments in Associates, Other Investments and Long-term Financial Assets" for a description of customer financing assets book value, including Airbus (€ 2.7 billion) and 50% ATR (€ 0.3 billion).

The amount of off-balance sheet customer financing exposure at Airbus and 50% ATR of € 0.8 billion primarily reflects the net present value of lease in/lease out structures. The corresponding cumulative nominal value of future payments corresponding to off-balance sheet exposure is € 1.1 billion; a corresponding provision of € 0.6 billion exists in EADS' balance sheet. See "Notes to the Audited Consolidated Financial Statements – Note 25: Commitments and Contingencies". The year-to-year decrease in off-balance sheet exposure is primarily due to the impact of the weakening U.S. dollar on the Euro amount of such exposure.

Asset Value Exposure. A significant portion of EADS' asset value exposure arises from outstanding AVGs, primarily at

Airbus. Airbus' 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 AVG-related exposure is diversified over a large number of aircraft and customers; and (iii) the exercise dates of outstanding AVGs are distributed through 2015, resulting in low levels of exposure maturing in any year. Because exercise dates for AVGs are on average in the 10th year following aircraft delivery, AVGs issued in 2004 will generally not be exercisable prior to 2014, and, therefore, an increase in near-term exposure is not expected.

Gross Exposure. Gross Asset Value Exposure is defined as the sum of the maximum guaranteed tranche amounts (as opposed to the sum of the maximum guaranteed asset value amounts) under outstanding AVGs. At December 31, 2003, Airbus Gross Asset Value Exposure totalled U.S. $ 3.0 billion (€ 2.3 billion at an exchange rate of €-U.S. $ 1.263).The portion of Airbus Gross Asset Value Exposure treated as operating leases on the consolidated balance of EADS sheet was U.S. $ 1.5 billion (€ 1.2 billion at an exchange rate of €-U.S. $ 1.263) at December 31, 2003, with the remaining portion, representing AVGs with net present values of less than 10 % of the sales prices of the corresponding aircraft, recorded off-balance sheet. As at December 31,2003, average annual Airbus Gross Asset Value Exposure is approximately U.S.$ 240 million (€ 190 million at an exchange rate of €-U.S. $ 1.263).

Net Exposure. The outstanding net exposure from AVGs at year-end 2003 was € 0.4 billion, which was fully provisioned for.

Backstop Commitments. While 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 (although it is possible that customers not benefiting from such commitment may nevertheless request financing assistance ahead of aircraft delivery), (ii) until the aircraft is delivered, Airbus or ATR retain the asset and do not incur an unusual risk in relation thereto (other than the corresponding work-in-progress), 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 that guaranteed parties must satisfy in order to benefit therefrom.

See "Notes to the Consolidated Financial Statements – Note 25: Commitments and Contingencies" for further discussion of EADS' sales financing policies and accounting procedures.

1.1.7 Management of Market Risks

1.1.7.1 Interest Rate Risk

EADS uses an asset and liability management approach with the objective of limiting its interest rate risk. The Company attempts 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 minimise risks and financial impacts. Therefore, EADS may use interest rate derivatives for hedging purposes.

Hedging instruments that are specifically related to debt instruments have at most the same nominal amounts, as well as the same maturity dates, as the corresponding hedged item.

Regarding the management of its cash balance, EADS only invests in short-term instruments and/or floating rate instruments in order to further minimise any interest risk in its cash and securities portfolio.

The contract or notional amounts of EADS' interest rate 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 such interest rate derivative financial instruments are as follows, specified by expected maturity.

Interest rate contracts in €m	Remaining period: Not exceeding 1 year	Over 1 year up to 5 years	More than 5 years	Total
Year ended December 31, 2003				
Interest rate swaps	0	802	2,964	3,766

Since its creation, EADS has been in a positive net cash position. As interest rate sensitivity analysis is mostly relevant to large borrowers, EADS considers that the added value of such analysis to an understanding of the Company's interest rate exposure is minimal. Such analysis has therefore not been included herein, and the above table of interest rate derivatives has not been correlated with the preceding table of financial debt. As circumstances warrant, EADS will consider including such an analysis in future reference documents.

1.1.7.2 Exchange Rate Risk

Exchange Rate Exposure. Most of EADS' revenues are denominated in U.S. dollars (approximately U.S.$ 20 billion for 2003), with approximately half of such currency exposure "naturally hedged" by U.S. dollar-denominated costs. The remainder of costs is incurred primarily in Euro, and to a lesser extent, in Pounds Sterling. Consequently, to the extent that EADS does not use financial instruments to hedge its net current and future exchange rate exposure from the time of a customer order to the time of delivery, its profits will be affected by market changes in the exchange rate of the U.S. dollar against these currencies. Consistent with EADS' policy of generating profits principally from its operations, EADS uses hedging strategies to manage and minimise the impact on its EBIT* from the volatility of the U.S. dollar. See "– Measurement of Management's Performance – EBIT* Performance by Division – Hedging Impact on EBIT*". See also "Part 2/1.5.1 Market Risks – Exposure to Foreign Currencies".

As EADS uses financial instruments to hedge only its net foreign currency exposure, the portion of its revenues not hedged by financial instruments (approximately 30%) is exposed to changes in exchange rates. Therefore, a € 0.10 change in the average 2003 Euro-U.S. dollar spot rate (€-U.S. $ 1.13) would have had an impact of approximately 2% on EADS' consolidated revenues, assuming 300 deliveries at Airbus.

Exposure on aircraft sales – For products such as aircraft, EADS' policy is to hedge 60% to 100% of the forecasted flows in U.S. dollars related to firm contracts for the following year through 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 U.S. dollar exposure. For EADS, a forecasted transaction is regarded highly probable if the future delivery is included in the firm order book or is very likely to materialise in view of contractual evidences (e.g., a letter of intent). The coverage ratio may be adjusted to take into account macroeconomic movements affecting the spot and interest rates, as applicable.

Exposure on project related business – For project-related business, EADS generally hedges 100% based on specific flows arising out of firm and individual contracts. Hedging is implemented on an individual project basis.

Exposure on treasury operations – In connection with its treasury operations, EADS headquarters enters into foreign exchange swaps (notional amount of € 1.8 billion in 2003) to adjust for short-term fluctuations of non-Euro cash balances at the business unit level. Year-to-year changes in the fair market value of these swaps is recorded on the consolidated statement of income in the line item "other financial result". No assurances can be given that these changes will not have a material impact on EADS' net income.

Hedge Portfolio. EADS manages a long-term hedge portfolio with a maturity of several years covering its net exposure to U.S. dollar sales, mainly from the activities of Airbus. The net exposure is defined as the total currency exposure (U.S. dollar-denominated revenues), net of the part that is "naturally hedged" by U.S. dollar-denominated costs. The hedge portfolio covers the vast majority of the Group's hedging transactions. As hedging instruments, EADS primarily uses foreign currency forwards and option contracts.

The contract or notional amounts of EADS' foreign exchange 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 such foreign exchange derivative financial instruments are as follows, specified by expected maturity:

Foreign exchange contracts in €m	Remaining period: Not exceeding 1 year	Over 1 year up to 5 years	More than 5 years	Total
Year ended December 31, 2003				
Net forward sales contracts	7,104	22,581	3,604	33,289
Purchased put options	285	0	0	285
U.S. dollar swap contracts	1,800	0	0	1,800

1.1.7.3 Counterparty Credit Risk

EADS is exposed to credit risk to the extent of non-performance by its financial instrument counterparties. However, the Group has policies in place to avoid concentrations of credit risk and to ensure that credit risk is limited.

Cash transactions and derivative counterparties 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 counterparties of financial transactions, based at a minimum on their credit ratings as published by Standard & Poor's, Moody's and Fitch IBCA. The respective limits are regularly monitored and updated.

As counterparty credit risk also arises in the context of sales financing transactions, EADS' policy is to provide financing only to customers and through structures with an appropriate credit standing.

1.1.7.4 Risks On Equity Investment Portfolio

EADS holds several equity investments for industrial reasons. None of the equity investments are held for speculative or trading purposes. Equity investments are either accounted for using the equity method (associated companies), if EADS has the ability to exercise significant influence, or at fair value. If fair value is not readily determinable, the investment is measured at cost.

Changes in the value of equity investments mainly depend on their performance. EADS' principal investment in associates is Dassault Aviation. The net asset value of this investment was € 1.6 billion at December 31, 2003. EADS considers its risk to unexpected changes in the value of Dassault Aviation as well as to all other associated companies as remote.

For equity investments other than associates which make up only a fraction of EADS' total assets, EADS regards the risk of negative changes in fair value or impairments on these investments as non-significant.

Treasury shares held by EADS are not considered to be equity investments. Additionally, treasury shares are not regarded as being exposed to risk, as any change in value of treasury shares is recognised directly in equity only when sold to the market and never affects net income. Treasury shares are primarily held to hedge the dilution risk arising from employee stock option plans and the exercise of stock options.

1.2 Financial Statements

1.2.1 Consolidated Financial Statements

Consolidated Income Statements for the years 2003, 2002,2001

in €m	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.

Consolidated Balance Sheets at December 31, 2003 and 2002

in €m	Note	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.

Consolidated Statements of Cash Flows for the years 2003, 2002 and 2001

in €m	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 amortization of fixed assets	2,375	2,768	3,560
Valuation adjustments	263	177	493
Dilution gain Airbus/MBDA	0	0	(2,817)
Deferred tax (income) expense	(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 activites	**(3,475)**	**(3,217)**	**(2,272)**
Change in financial liabilities	1,132	(774)	(465)
Cash contribution by minority interests	0	0	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)	0
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 accompanying notes are an integral part of these Consolidated Financial Statements.

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

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

For details, see Note 23 "Consolidated Cash-Flow Statements".

Consolidated Statements of Changes in Shareholders' Equity for the years 2003, 2002 and 2001

in €m	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 adjustments				(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 adjustments				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 adjustments				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.

Consolidated Financial Statements

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 distinguished 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 programs 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 air 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 amortization 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 September 18, 2003, EADS exchanged its 42 percent ownership interest in Nortel Networks Germany GmbH & Co. KG and its 45 percent ownership interest in Nortel Networks France S.A.S. for a 41 percent interest in EADS Telecom France S.A.S. ("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. 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.

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** – 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

Business Segment Information Year ended December 31, 2003 in €m	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 amortization 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, amortization	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

Business Segment Information Year ended December 31, 2002 in €m	**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 amortization 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, amortization	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 program.

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

c) EBIT Pre Goodwill Amortization and Exceptionals

EADS uses EBIT pre goodwill amortization and exceptionals as a key indicator of its economic performance. The term "exceptionals" refers to income or expenses of a non-recurring nature, such as amortization expenses of fair value adjustments relating to the EADS merger, the Airbus Combination and the formation of MBDA, as well as impairment charges. EBIT pre goodwill amortization and exceptionals is treated by management as a key indicator to measure the segments' economic performances.

in €m	2003	2002	2001
Income from operating activities	**561**	**160**	**2,514**
Dilution gain Airbus UK, MBDA	0	0	(2,794)
Goodwill amortization 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 amortization and exceptionals	**1,543**	**1,426**	**1,694**

d) Revenues by Destination

in €m	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 are 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 €m	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 amortization 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 amortization 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 €m	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 €m	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 €m	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 €m	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 qualifying for "hedge accounting" 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 €m	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 12.125% 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 deferred 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 €m	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 amortization 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 €m	**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 €m	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 €m	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 recognised directly in equity is as follows:

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

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 €m	Balance at January 1, 2003	Exchange differences	Additions	Changes in consolida-tion scope	Reclassifi-cation	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**

Amortization in M €	Balance at January 1, 2003	Exchange differences	Additions	Changes in consolida-tion scope	Reclassifi-cation	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 €m	Balance at January 1, 2003	Exchange differences	Additions	Changes in consolida-tion scope	Reclassifi-cation	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 programs have been reviewed regarding potential expenses in the development phase of such programs 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 program. In addition, for past programs, 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 €m	Balance at January 1, 2003	Exchange differences	Additions	Changes in consolida-tion scope	Reclassifi-cation	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 M €	Balance at January 1, 2003	Exchange differences	Additions	Changes in consolida-tion scope	Reclassifi-cation	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 €m	Balance at January 1, 2003	Exchange differences	Additions	Changes in consolida-tion scope	Reclassifi-cation	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 €m	
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 €m	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 €m	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 €m	
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 €m	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 M €	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 €m	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 authorization 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 €m	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:

in %	December 31, 2003	December 31, 2002	December 31, 2001
Assumptions			
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:

in €m	2003	2002	2001
Change in defined benefit obligations			
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**

in M €	2003	2002	2001
Change in plan assets			
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 €m	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 €m	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:

in €m	2003	2002
Change in provision for pension obligations in 2003		
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 deriative instruments.

d) Other Provisions

Movements in provisions during the year were as follows:

in €m	Balance at January 1, 2003	Exchange differences	Additions	Reclassification/ Change 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 €m	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 *thereof due in more than five years: 1,598 (December 31, 2002: 0)*	1,640	44
Liabilities to financial institutions *thereof due in more than five years: 570 (December 31, 2002: 810)*	1,075	1,313
Liabilities to affiliated companies *thereof due in more than five years: 3 (December 31, 2002: 0)*	6	0
Loans *thereof due in more than five years: 541 (December 31, 2002: 667)*	799	968
Liabilities from finance leases *thereof due in more than five years: 47 (December 31, 2002: 150)*	269	320
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 €m	Financial liabilities
2004	978
2005	238
2006	392
2007	156
2008	244
Thereafter	2,759
Total	**4,767**

21. Trade and Other Liabilities

in €m	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-program.

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 € (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).

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 €m	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 €m	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.

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 €m	
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 €m	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 €m	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 2015. 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 exceed 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 (although it is possible that customers not benefiting from such commitments may nevertheless request financing assistance ahead of aircraft delivery), (ii) until the aircraft is delivered, Airbus or ATR retain the asset and do not incur an unusual risk in relation thereto (other than the corresponding work-in progress), 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 €m

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. 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 €m	Not exceeding 1 year	1 year up to5 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 €m	Not exceeding 1 year	1 year up to5 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 €m	Not exceeding 1 year	1 year up to5 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:

in %	EUR	USD	GBP
Interest rate			
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:

in €m	December 31, 2003 Carrying amount	December 31, 2003 Fair value	December 31, 2002 Carrying amount	December 31, 2002 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 (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 authorization 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 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	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. The values assigned to investment property are as follows:

in €m	Historical cost	Accumulated depreciation December 31, 2002	Book value December 31, 2002	Depreciation 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:

in €m	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 (in M €)	152	(299)	1,372
Weighted average number of ordinary shares	800,957,248	804,116,877	807,295,879
Basic earnings per share (in €)	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 (in M €)	152	(299)	1,372
Weighted average number of ordinary shares	800,957,248	804,116,877	807,295,879
Diluted earnings per share (in €)	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.	U.S.A.
	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.	U.S.A.
	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)	U.S.A.
	F	80,00	F	80,00	Airbus S.A.S	Toulouse (France)
	F	80,00	F	80,00	Airbus Service Company Inc. (ASCO)	U.S.A.
	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	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	U.S.A.
	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	U.S.A.
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 Belgium	Oostkamp (Belgium)
	F	100,00	F	100,00	EADS System & Defence Electronics SA	Velizy (France)

	2003	%	2002	%	Company	Head Office
Defence & Security Systems	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	Untershleissheim (Germany)
	F	100,00	F	59,10	EADS Telecom Espana	Barcelona (Spain)
	F	100,00	F	100,00	EADS Telecom Federal Systems Division	San Antonio, TX, 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 (Germany)
	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.	La Ferte 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)
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)

	2003	%	20022	%	Company	Head Office
	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 mbH	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	Lake Charles, 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	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 (Brazil)
	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)

F: Fully consolidated

P: Proportionate

E: Equity method

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

1.2.2 Statutory Financial Statements

EADS N.V.
Balance Sheets

in €m Assets	Note	At December 31, 2003	2002
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**

Statements of Income

in €m	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 €m	Goodwill	Financial Assets Participating Interests	Total
Balance at December 31, 2002	**4,618**	**5,479**	**10,097**
Additions	–	449	449
Amortization	(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

	December 31,	
in €m	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 €m	Capital stock	Share premium from contributions	Share premium from cash	Accumulated other compre-hensive 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 million (2002: € 280 million) and the internally generated capitalized development costs of € 4 million (2002: nil).

7. Other Liabilities

in €m	December 31, 2003	December 31, 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 million 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
	8,007,930	**8,385,963**

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

2003	Fixum in Euro	Bonus in Euro related to 2003	Fees in Euro	Total in Euro
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	Fixum in Euro	Bonus in Euro related to 2003	Fees in Euro	Total in Euro
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) Iincluding € 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 policy allows retirement starting at age 60 (but they are not forced to retire at age 60). This obligation will increase to 60% after a 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 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.

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	Amsterdam, March 5, 2004
KPMG Accountants N.V.	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 million 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.

1.3 Statutory Auditors' Fees

Services of Statutory Auditors and Members of Their Network Rendered to the Group for the Financial Years 2003 and 2002

	KPMG Accountants N.V.				Ernst & Young Accountants			
	2003		2002		2003		2002	
	Amount (in thousands of €)	%	Amount (in thousands of €)	%	Amount (in thousands of €)	%	Amount (in thousands of €)	%
Audit								
• Audit process, certification, examination of individual and consolidated accounts	4,514	65.1	4,049	62.0	4,263	64.2	3,728	56.8
• Additional tasks	2,133	30.7	1,804	27.7	1,108	16.7	2,785	42.5
Sub-total	**6,647**	**95.8**	**5,853**	**89.7**	**5,371**	**80.9**	**6,513**	**99.3**
Other services as relevant								
• Legal, tax, employment	294	4.2	675	10.3	1,105	16.7	45	0.7
• Information technology	–	–	–	–	28	0.4	–	–
• Internal audit	–	–	–	–	–	–	–	–
• Other (to be specified if > 10% of the fees for the audit)	–	–	–	–	132	2.0	–	–
Sub-total	**294**	**4.2**	**675**	**10.3**	**1,265**	**19.1**	**45**	**0.7**
Total	**6,941**	**100.0**	**6,528**	**100.0**	**6,636**	**100.0**	**6,558**	**100.0**

2.1 Management and Control

2.1.1 Board of Directors, Chairmen and Chief Executive Officers

Pursuant to the Articles of Association of the Company, the Board of Directors is responsible for the affairs of the Company.

The Board of Directors consists of a maximum of eleven members appointed and removed by the shareholders' meeting. The Board of Directors adopted rules governing its internal affairs (the "**Rules**") at a Board of Directors' meeting held on July 7, 2000. The Rules were most recently amended at a Board of Directors' meeting held on December 5, 2003 to take into account recommendations for changes to corporate governance, as described below. The Rules specify the composition, the role and the key responsibilities of the Board of Directors, and also determine the manner of appointment and the responsibilities of the Chairmen and the Chief Executive Officers. The Rules also specify the creation of two committees (the Audit and the Remuneration and Nomination Committees) and specify their composition, role and operating rules.

The Board of Directors has also adopted specific Insider Trading Rules, which restrict its members from trading in shares in the Group in certain circumstances (for more information, please see "Part 2/3.1.3 Governing Law – Dutch Regulations").

The parties to the Participation Agreement have agreed that the voting rights attached to the Indirect EADS Shares shall be exercised by EADS Participations B.V. to ensure that the Board of Directors of EADS comprises the Directors of EADS Participations B.V. and two additional independent Directors who are not officers, directors, employees or agents of or otherwise have no significant commercial or professional connection either with the DaimlerChrysler, SOGEPA or Lagardère groups or the French State. Pursuant to the Participation Agreement, the initial Board of Directors comprises eleven members of whom:

- four nominated by DaimlerChrysler;
- four nominated by SOGEADE;
- one nominated by SEPI;
- two independent Directors, one nominated by DaimlerChrysler and one nominated by SOGEADE.

Pursuant to the Articles of Association, each Board member of the first Board of Directors holds office for a term expiring at the annual general meeting of the Company to be held in 2005. Members of the Board of Directors will be elected at such meeting and at each fifth annual general meeting thereafter.

The general meeting of shareholders may at all times suspend or dismiss any member of the Board of Directors. There is no limitation on the number of terms that a Director may serve.

The initial Board of Directors appointed two Chairmen, one chosen from the DaimlerChrysler-nominated Directors and one chosen from the SOGEADE-nominated Directors.

The Chairmen ensure the smooth functioning of the Board of Directors in particular with respect to its relations with the Chief Executive Officers whose efforts they support with regard to top level strategic discussions with outside partners.

The Board of Directors also appointed two Chief Executive Officers to be responsible for the day-to-day management of the Company, one chosen from the DaimlerChrysler-nominated Directors and one chosen from the SOGEADE-nominated Directors.

The Company is represented by the Board of Directors or by the Chief Executive Officers acting jointly. Furthermore, the Company has granted general powers to each of the Chief Executive Officers, authorizing them to each individually represent the Company.

In the event of a deadlock between the two Chief Executive Officers, the matter shall be referred to the two Chairmen.

The Chief Executive Officers shall not enter into transactions which form part of the key responsibilities of the Board of Directors unless these transactions have been approved by the Board of Directors.

The key responsibilities of the Board of Directors include amongst others:

- approving any change in the nature and scope of the activities of the Group;
- approving the overall strategy and the strategic plan of the Group;
- approving the business plan and the yearly budget of the Group;
- setting the major performance targets of the Group;
- appointing the members of the Executive Committee (see below) and the Corporate Secretary;
- approving proposals for appointments of the chairmen of the supervisory board (or similar bodies) and the chief executive officers (or equivalent position) of important Group companies and business units;
- approving material changes to the organizational structure of the Group;
- approving major investments, projects or product decisions or divestments of the Group contemplated in the business plan with a value exceeding € 200 million;

- approving major strategic alliances and cooperations of the Group;
- approving any material decision affecting the ballistic missiles activity of the Group;
- approving matters of shareholder policy, major actions or major announcements to the capital markets;
- approving other measures and business of fundamental significance for the Group or which involve an abnormal level of risk.

The Board of Directors met eight times during 2003. The average attendance rate at such meetings was 76%. Topics discussed and operations authorized at these meetings included EADS strategy, reorganization processes (such as the continuation of the Space Division restructuring and the reorganization in the field of Defence and Security), major business issues and contracts (such as the A340 HGW authorization, 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 stock option plan and an employee share ownership plan) and the Group's financial results and forecasts. The Board of Directors 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. During this period, the Board of Directors was regularly informed of developments through business reports from the Chief Executive Officers, which included rolling forecasts and strategic and operational plans.

In addition, the Board of Directors held on December 5, 2003 discussed recommendations for changes to EADS' corporate governance in the light of corporate governance best practices applicable in the jurisdictions relevant to EADS. The Board of Directors adopted the recommendations which relate to its functioning including the implementation of an evaluation process of its performance, the personal status of the Directors including their individual compensation and the Board of Directors' remuneration policy, the role of the committees of the Board of Directors and the enhancement of shareholders' rights, including, *inter alia*, the access to information by the setting-up of specific pages regarding corporate governance on the EADS website.

Following the adoption of these recommendations, the Board of Directors decided to establish internal directors guidelines (the "**Directors' Guidelines**"), detailing the rights and duties of the members of the Board of Directors and the role of the committees of the Board of Directors as set out in the Rules. During 2003, the shareholders general meeting of EADS held on May 6, 2003 appointed Hans Peter Ring (Chief Financial Officer and member of the Executive Commitee) as a member of the Board of Directors to replace Axel Arendt who resigned with effect from November 1, 2002.

Philippe Camus and Rainer Hertrich were appointed Directors by the general meeting of shareholders of EADS held on May 10, 2000 and Chief Executive Officers at the Board of Directors' meeting held the same day. Manfred Bischoff and Jean-Luc Lagardère were appointed Directors by the general meeting of shareholders of EADS held on June 19, 2000 and their appointments became effective on July 7, 2000; they were appointed Chairmen at a meeting held on July 7, 2000. As successor to Jean-Luc Lagardère, Arnaud Lagardère was appointed as one of the Chairmen of the Board of Directors and a member of the Audit and Remuneration and Nomination committees at a meeting of the Board of Directors held on March 28, 2003 to take immediate effect from the date of his appointment as Director by the general meeting of shareholders of EADS held on May 6, 2003.

Each director shall have one vote, provided that if there is a vacancy on the Board of Directors' in respect of a DaimlerChrysler-nominated Director or a SOGEADE-nominated Director, the DaimlerChrysler-nominated Directors being present or represented at the meeting can jointly exercise the same number of votes that the SOGEADE-nominated Directors who are present or represented at the meeting can exercise and vice versa. All decisions of the Board of Directors require a vote in favour by at least seven Directors voting in person or by proxy. As of July 8, 2003, the SEPI-nominated director no longer has the ability to block any decisions of the Board of Directors relating to CASA Matters (as defined in "Part 2/3.3.2 Relationships with Principal Shareholders – Organization of EADS Participations B.V.").

The quorum for the transaction of business at meetings of the Board of Directors requires the presence of at least one of the SOGEADE-nominated Directors and one of the DaimlerChrysler-nominated Directors.

In the event of a deadlock in the Board of Directors, other than a deadlock giving DaimlerChrysler the right to exercise the put option granted to it by SOGEADE (see "Part 2/3.3.2 Relationships with Principal Shareholders – Put Option "), the matter shall be referred to Arnaud Lagardère (or such person as shall be nominated by Lagardère) as representative of SOGEADE and to the Chief Executive Officer of DaimlerChrysler. In the event that the matter in question, including a deadlock giving DaimlerChrysler the right to exercise the put option (but in this case with the agreement of SOGEPA and DaimlerChrysler) is a matter within the competence of the general meeting of EADS, a resolution on the issue shall be put to the general meeting, with the voting rights of SOGEADE, DaimlerChrysler and SEPI being negated.

Pursuant to the Rules, the Board of Directors is empowered to form committees from its members. In addition to the Audit Committee and the Remuneration and Nomination Committee, the Board of Directors may form other committees to which it may transfer certain minor or ancillary decision-making functions although such assignment does not negate the joint responsibility of all Directors. The quorum for the transaction of business at any meeting of a committee shall be at least one Director appointed by SOGEADE and at least one Director appointed by DaimlerChrysler. All decisions of a committee require the simple majority of the members.

Composition of the Board of Directors

Name	Age	Term started	Term expires	Principal function in the Group	Principal role outside the Group
Manfred Bischoff	61	2000	2005	Chairman of EADS	DaimlerChrysler Delegate for the Aerospace Industry
Arnaud Lagardère	43	2003	2005	Chairman of EADS	General Partner and CEO of Lagardère
Philippe Camus	55	2000	2005	CEO of EADS	Deputy Chairman and Deputy CEO of Arjil Commanditée Arco (General Partner and CEO of Lagardère)
Rainer Hertrich	54	2000	2005	CEO of EADS	President of the German Association of Aerospace Industries, BDLI
Hans Peter Ring	53	2003	2005	CFO of EADS	Member of the Supervisory Board (Aufsichtsrat) of M+W Zander - D.I.B. Facility Management GmbH
Eckhard Cordes	53	2000	2005	Member of the Board of Directors of EADS	Member of Management Board of DaimlerChrysler
Pedro Ferreras	48	2000	2005	Member of the Board of Directors of EADS	Chairman of the board of directors of Corporación Uniland SA
Noël Forgeard	57	2000	2005	President and CEO of Airbus	Member of the board of directors of IMS SA
Louis Gallois	60	2000	2005	Member of the Board of Directors of EADS	President of SNCF
Jean-René Fourtou	64	2000	2005	Member of the Board of Directors of EADS	Chairman and CEO of Vivendi Universal
Michael Rogowski	65	2000	2005	Member of the Board of Directors of EADS	Chairman of the Supervisory Board of J.M. Voith AG

Curriculum Vitae and other Mandates and Duties Performed in any Company by the Members of the Board of Directors

Manfred Bischoff

Dr. Manfred Bischoff joined Daimler-Benz AG in 1976. He was a member of the Board of Management of DaimlerChrysler from 1995 until December 15, 2003, responsible for Aerospace & Industrial Businesses. Prior to his present position with EADS, Dr. Bischoff was first Chief Financial Officer from 1989 and then President and Chief Executive Officer from 1995 to March 2000 of Dasa AG, one of the three EADS founding companies. He holds a master's degree and a PhD (Dr. rer. pol.) in Economics from the University of Heidelberg.

Current mandates in addition to those listed in the chart above

- Chairman of the board of directors of EADS Participations B.V.;
- Chairman of the supervisory board of Dasa AG;
- Chairman of the supervisory board of DCLRH;
- Member of the supervisory board of Lagardère;
- Member of the supervisory board of Bayerische Hypo- und Vereinsbank AG;
- Member of the supervisory board of Fraport AG;
- Member of the supervisory board of Gerling-Konzern Versicherungs-Beteiligungs-AG;
- Member of the supervisory board of J.M. Voith AG;
- Member of the supervisory board of Royal KPN N.V.

Arnaud Lagardère
Mr. Arnaud Lagardère has been General Partner and Chief Executive Officer of Lagardère since 2003. He began his career in 1986 as general manager of MMB, the holding company of Hachette and Europe 1. In 1987, he was appointed vice-president of the Supervisory Board of Arjil bank followed by his appointment as head of emerging activities and electronic media for Matra. In 1994 he became Chief Executive Officer of Grolier Inc. in the United States. He has been Managing Partner of Lagardère since 1998. In 1999, he was appointed Chief Executive Officer of both Lagardère Media and Lagardère Active. Arnaud Lagardère graduated in Economics from the University Paris Dauphine.

Current mandates in addition to those listed in the chart above

- Chairman of the board of directors of EADS Participations B.V.;
- Chairman of the board of directors of Lagardère Thématiques;
- Chairman and chief executive officer of Lagardère Active;
- Chairman and chief executive officer of Lagardère Images;
- Chairman and chief executive officer of Lagardère Active Broadcast;
- Chairman and chief executive officer of Lagardère Active Broadband;
- Chairman and chief executive officer of Lagardère SAS;
- Chairman and chief executive officer of Lagardère Media (Hachette SA);
- Chairman and chief executive officer of Lagardère Capital & Management;
- Chairman of Fondation Jean-Luc Lagardère;
- Deputy-chairman of the supervisory board of Banque Arjil & Cie;
- Chairman and chief executive officer of Arjil Commanditée - ARCO;
- Permanent representative of Lagardère Active Publicité to the board of directors of Lagardère Active Radio International;
- Representative of Hachette SA to the Management Committee of SEDI TV-TEVA;
- Manager of Lagardère Elevage;
- Member of the board of directors of Lagardère Ressources;
- Member of the board of directors of LVMH;
- Member of the board of directors of France Télécom;
- Member of the board of directors of Hachette Livre;
- Member of the board of directors of Hachette Distribution Services;
- Member of the board of directors of Fimalac;
- Member of the board of directors of Hachette Filipacchi Médias;
- Member of the supervisory board of Virgin Stores;
- President of the Association of companies supporting Paris's candidacy of the 2012 Olympic games.

Philippe Camus
Mr Philippe Camus was previously Chairman of the Management Board of Aerospatiale Matra. In 1982, he joined the general management of the Lagardère Group where he was Chairman of the Finance Committee of the Matra Group until 1992, appointed Chairman and Managing Director of the Finance Committee of the Lagardère Group in 1993, and then Managing Partner of Lagardère in 1998. Mr. Camus is a former student of the École Normale Supérieure de Paris, an agrégé in physical sciences and actuarial science and a graduate of the Institut d'Études Politiques de Paris.

Current mandates in addition to those listed in the chart above

- Chief executive officer of EADS Participations B.V.;
- Chairman of GIFAS – Groupement des Industries Françaises Aéronautiques et Spatiales;
- Permanent representative of Lagardère on the board of directors of Hachette SA;
- Permanent representative of Hachette SA on the board of directors of Hachette Distribution Services;
- President of EADS France;
- Member of the board of directors of Dassault Aviation;
- Member of the board of directors of Lagardère Active Broadcast;
- Member of the board of directors of Hachette Filipacchi Médias;
- Member of the board of directors of La Provence;
- Member of the board of directors of Nice Matin;

- Member of the supervisory board of Editions P. Amaury;
- Member of the shareholders and remuneration committees of Airbus;
- Manager of Internal Control Group of Aero Ré.

Rainer Hertrich
Mr Rainer Hertrich started his career in 1977 at Messerschmitt-Bölkow-Blohm (MBB). In 1994 he became Senior Vice President for Corporate Controlling of Deutsche Aerospace AG. In 1996, he was appointed Head of Dasa's Aero Engine Business Unit and Chief Executive Officer of Dasa's subsidiary MTU. In 2000 he became President and Chief Executive Officer of Dasa AG. At the end of 2001, he was elected President of BDLI, the German Aerospace Industries Association. Mr. Hertrich studied Business Administration at the Technical University of Berlin and the University of Nuremberg, graduating with a Bachelor of Commerce.

Current mandates in addition to those listed in the chart above
- Chief executive officer of EADS Participations B.V.;
- Chairman of the supervisory board of EADS Deutschland GmbH;
- Chairman of the board of directors of EADS Space B.V.;
- Chairman of the shareholders committee and member of the remuneration committee of Airbus;
- Member of the board of directors of Stichting Administratiekantoor EADS (the "*Foundation*").

Hans Peter Ring
Mr Hans Peter Ring began his career at MBB in 1977. In 1987 he was appointed Head of Controlling of the company's Missiles business. Subsequently, he was named Head of Controlling of the Aviation and Defense Division of Dasa AG. From 1992-1995, he was Chief Financial Officer and member of the Board of Dornier Luftfahrt, a Dasa AG subsidiary. In 1996, he was appointed Senior Vice President of Controlling of Dasa and subsequently of EADS. Hans Peter Ring was appointed Chief Financial Officer of EADS in 2002. Mr Hans Peter Ring has a degree in business administration.

Current mandates in addition to those listed in the chart above
- Member of the shareholders committee of Airbus;
- Member of the board of directors of EADS Space B.V.;
- Member of the Supervisory Board of Eurocopter;
- Member of the Supervisory Board of Eurocopter Holding;
- Member of the Board of Directors of EADS CASA;
- Member of the Board of Directors of EADS North America;
- Member of the advisory Board of Deutsche Bank (Region Munich).

Eckhard Cordes
Dr. Eckhard Cordes joined Daimler-Benz AG as a management trainee in 1976. He has been a member of the Board of Management of DaimlerChrysler since 1998. At first he was responsible for Corporate Development, IT Management, MTU/Diesel Engines and TEMIC before he took over responsibility for the Commercial Vehicle Division in 2000. He studied business management at the University of Hamburg, where he graduated in business studies and earned a doctorate in business administration.

Current mandates in addition to those listed in the chart above
- Chairman of Detroit Diesel Corporation;
- Chairman of MTU Motoren-und Turbinen-Union Friedrichshafen GmbH;
- Chairman of EvoBus GmbH;
- Member of the board of directors of Rheinmetall AG;
- Member of the board of directors of Deutsche Messe AG;
- Member of the board of directors of Deutsche BP AG.

Pedro Ferreras
Mr Pedro Ferreras has been Secretary of the Ministry of Industry and Energy and President of Sociedad Estatal de Participaciones Industriales (SEPI), President of the Spanish Patents Office and member of the Board of Directors of important companies such as Telefonica, Repsol and Argentaria. Mr Pedro Ferreras is a lawyer and is the founding partner of the legal firm Ferreras Abogados. He has also been a professor of administrative law at the University of León.

Current mandates in addition to those listed in the chart above
- President of Ferreras Abogados;
- Chairman of the board of directors of ALCASA;
- Vice-chairman of Consorcio Zona Franca de Barcelona;
- Member of the rector board of the Asociación para el Progreso y la Dirección (A.P.D) and Asociación para el Progreso y la Direccion (A.P.D. zona mediterranea).

Noël Forgeard
Mr. Forgeard joined Matra in 1987 as Senior Vice President of the Defense and Space activities. In 1992, he was appointed Managing Director of Lagardère and Chief Executive Officer of Matra Hautes Technologies. He joined Airbus Industrie as

Managing Director in 1998 and became the first President and Chief Executive Officer of the Airbus integrated company in 2001. He graduated from the Ecole Polytechnique and the Ecole des Mines in Paris.

Current mandates in addition to those listed in the chart above
- Chairman and chief executive officer of Airbus Holding SA;
- Chairman of the executive committee of Airbus France;
- Chairman of the board of directors of Airbus España, SL;
- Chairman of the supervisory board of Airbus Deutschland GmbH;
- Chairman of the board of directors of Airbus Military, SL;
- Member of the board of directors of Airbus U.K. Ltd;
- Member of the board of directors of EADS CASA;
- Member of the board of directors of Ecole Polytechnique.

Louis Gallois
Mr. Louis Gallois has been Chairman of SNCF since 1996. From 1972 he worked in various posts for the Ministry of Economy and Finance, the Ministry of Research and Industry and the Ministry of Defense. In 1989 he was nominated Chairman and Chief Executive Officer of SNECMA and subsequently, in 1992 Chairman and Chief Executive Officer of Aerospatiale. He graduated from the Ecole des Hautes Etudes Commerciales (HEC) in Economic sciences and is an alumnus of the Ecole Nationale d'Administration (ENA).

Current mandates in addition to those listed in the chart above
- Member of the board of directors of Thales;
- Member of the board of directors of Ecole Centrale des Arts et Manufactures.

Jean-René Fourtou
Mr Jean-René Fourtou joined Brossard & Michel as a consultant in 1963. Subsequently, he was named member of the Board of Brossard Consulting and finally Chief Operating Officer. In 1986, he joined Rhone-Poulenc as Chairman and Chief Executive Officer and then became Vice-Chairman of the Management Board of Aventis. In 2002 he was named Chairman and Chief Executive Officer of Vivendi Universal. Mr Jean-René Fourtou graduated from the Ecole Polytechnique.

Current mandates in addition to those listed in the chart above
- Chairman of the supervisory board of Groupe Canal +;
- Member of the supervisory board of Axa;
- Member of the supervisory board of Aventis;
- Member of the executive committee of Axa Millesimes SAS;
- Member of the board of directors of Stichting Administratiekantoor EADS (the "**Foundation**");
- Member of the board of directors of The Equitable Life Assurance;
- Member of the board of directors of Cap Gemini;
- President of ICC, Chambre de Commerce Internationale.

Michael Rogowski
Dr. Michael Rogowski has been Chairman of the Supervisory Board of J.M. Voith AG since 2000 and is also the President of the Association of German Industry. Dr. Michael Rogowski joined J.M.Voith GmbH in 1974, where he was responsible for human resources as well as materials management. In 1982 he took over responsibility for the propulsion technology division and was named Chairman of the Management Board of J.M. Voith GmbH in 1986 and then J.M. Voith AG in 1997. He studied economical engineering and earned a doctorate at the University of Karslruhe in 1969.

Current mandates in addition to those listed in the chart above
- Member of the board of directors of Stichting Administratiekantoor EADS (the "**Foundation**");
- Member of the supervisory board of Deutsche Messe AG;
- Member of the supervisory board of Talanx AG/HDI Versicherung;
- Member of the supervisory board of IKB Deutsche Industrie-Bank AG;
- Member of the supervisory board of KfW Kreditanstalt für Wiederaufbau;
- Member of the supervisory board of KSB AG.

Resolutions to take note of the resignations of Mr. Jean-René Fourtou and Mr. Eckhard Cordes as members of the Board of Directors and to appoint Mr. François David (chairman and chief executive officer of COFACE since 1994) and Mr. Rüdiger Grube (member of the board of management of Dasa AG in charge of corporate development since 2002) as their respective successors will be submitted to the shareholders' general meeting of EADS called for May 6, 2004. Such appointments shall be effective as of the end of such shareholders' general meeting.

The Company has not appointed observers to the Board of Directors. Pursuant to applicable Dutch law, the employees are not entitled to elect a Director. There is no minimum number of shares that must be held by a Director.

Independent Directors
The two independent directors appointed pursuant to the criteria of independence set out above are Jean-René Fourtou and Michael Rogowski.

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

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

The self-evaluation of the Board of Directors and its committees comprises a general assessment of the meetings and processes of the Board of Directors, a review of the activities of the Board of Directors 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 members of the Board of Directors were also asked to consider the functioning and the composition of the Board of Directors, the quality and openness of discussion, the independence of expressed opinions, the ability to build on differing positions and the Director's access to necessary information.

The findings of the first self-assessment concluded that the overall performance of the Board of Directors 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, the members of the Board of Directors nominated by the controlling shareholders are deemed to fairly represent the interests of all shareholders.

Furthermore, the members of the Board of Directors indicated in self-assessment that the Board of Directors' composition with a wide range of different experiences represented in the Board of Directors and the running of meetings was conductive 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 at the December 5, 2003 meeting, the Board of Directors empowered the Audit Committee and the Remuneration and Nomination Committee with an increased scope of authority to align with the improved corporate governance standards in the EADS home countries.

2.1.2 Audit Committee
The Audit Committee makes recommendations to the Board of Directors on the appointment of auditors and the determination of their remuneration, the approval of the annual financial statements and the interim accounts, discusses with the auditors their audit programme and the results of their audit of the accounts and monitors the adequacy of the Group's internal controls, accounting policies and financial reporting. The Audit Committee has responsibility for ensuring that the internal and external audit activities are correctly directed and that the audit matters are given due importance at meetings of the Board of Directors.

The Audit Committee reviews the quarterly, half and full year accounts on the basis of both documents distributed in advance and discussions with the auditors. The head of accounting and the Chief Financial Officer are invited to meetings of the Audit Committee to answer any question.

The Audit Committee is chaired by Manfred Bischoff and Arnaud Lagardère and also includes Eckhard Cordes and Louis Gallois. The Audit Committee meets twice a year, or more frequently according to requirements. It met twice during 2003, with an 88% attendance rate, to review the 2002 results as well as the first half-year results for 2003 of the Company. The Board of Directors held on December 5, 2003, decided that the role of the Audit Committee will be increased with new tasks as of 2004, including, in particular, the review of the quarterly financial reports and the supervision of the internal risk management and control system. In relation to internal risk management and control system, the Board of Directors mandated the formalization and implementation of an improved risk management and control system. See "– Internal Risks Management and Control Procedures".

2.1.3 Remuneration and Nomination Committee
The Remuneration and Nomination Committee (name changed from Personnel Committee at Board meeting held on December 5, 2003) makes recommendations to the Board of Directors regarding appointments of the Executive Committee members, the chief executive officers of main EADS business units and the Corporate Secretary, human resources and remuneration related strategy and long-term remuneration plans (including playing a central role in determining and reviewing the variable portion of the remuneration of the members of the Board of Directors and the Executive Committee) and decides the service contracts and other

contractual matters in relation to the Board of Directors and Executive Committee members. The Remuneration and Nomination Committee is chaired by Manfred Bischoff and Arnaud Lagardère and also includes Philippe Camus, Rainer Hertrich, Eckhard Cordes and Louis Gallois.

The Remuneration and Nomination Committee meets twice a year, or more frequently according to requirements. It met six times during 2003, with an 86% average attendance rate, to review the compensation policy (including pension scheme for members of the Executive Committee), the bonus payments for 2002, the stock option plan and the employee share ownership plan for 2003, and to recommend the appointment of the chief executive officers of the Company's main business units such as EADS Space, EADS Defence and Security Systems divisions' new business units and EADS EFW. Furthermore, the Remuneration and Nomination Committee made a recommendation to the Board of Directors on the name of a new member of the Airbus executive committee. Pursuant to the decision of the Board of Directors to amend the Rules on December 5, 2003, new tasks have been 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 Group companies and business units, as well as the Company's Corporate Secretary.

2.1.4 Executive Committee

The Chief Executive Officers, supported by an Executive Committee (the "**Executive Committee**"), are responsible for managing the day-to-day operations of the Company. The Executive Committee, chaired by the Chief Executive Officers, also comprises the heads of the major and functional divisions of the Group. The Executive Committee met nine times during 2003.

The following matters are discussed, amongst others, at the Executive Committee meetings:

- Setting up and control of the implementation of the strategy for EADS businesses;
- Management, organizational and legal structure of the Group;
- Performance level of the Group's businesses and support functions; and
- All business issues.

The internal organization of the Executive Committee is defined by the business allocation among the members under the supervision of the Chief Executive Officers. Notwithstanding the joint responsibilities as defined above, each member of the Executive Committee is individually responsible for the management of his portfolio and must abide by decisions taken by the Chief Executive Officers and the Executive Committee, as the case may be.

The Chief Executive Officers endeavour to reach consensus among the members of the Executive Committee on the matters discussed at the Executive Committee meetings. In the event of consensus not being reached, the Chief Executive Officers are entitled to decide the matter. If there is a fundamental or significant disagreement with respect to any undecided matter, the dissenting Executive Committee member may request that the Chief Executive Officers submit such matter to the Chairmen for their opinion.

The term of office for the Executive Committee members is five years.

Composition of the Executive Committee

Name	Age	Term started	Term expires	Principal Occupation
Philippe Camus	55	2000	2005	Chief Executive Officer
Rainer Hertrich	54	2000	2005	Chief Executive Officer
François Auque	47	2000	2005	Head of Space Division
Ralph Crosby	56	2002	2007	Chairman and CEO of EADS North America
Thomas Enders	45	2000	2005	Head of Defence and Security Systems Division
Francisco Fernández-Sainz	58	2002	2007	Head of Military Transport Aircraft Division
Noël Forgeard	57	2000	2005	Head of Airbus Division and President and CEO of Airbus
Jean-Louis Gergorin	57	2000	2005	Head of Strategic Coordination
Jean-Paul Gut	42	2000	2005	Head of EADS International
Gustav Humbert	54	2000	2005	Airbus Chief Operating Officer
Jussi Itävuori	48	2002	2007	Head of Human Resources
Hans Peter Ring	53	2002	2007	Chief Financial Officer
Dietrich Russell (*)	62	2000	2005	Head of Aeronautics Division

(*) The Board of Directors held on March 5, 2004 accepted the resignation of Dietrich Russell for personal reasons as of April 30, 2004. In addition to his current position as one of the Chief Executive Officers of EADS, Rainer Hertrich will take up these duties with effect from May 1, 2004.

Philippe Camus, Chief Executive Officer
See "2.1.1 Curriculum Vitae and other Mandates and Duties Performed in any Company of the Members of the Board of Directors".

Rainer Hertrich, Chief Executive Officer
See "2.1.1 Curriculum Vitae and other Mandates and Duties Performed in any Company of the Members of the Board of Directors".

François Auque, Head of Space Division
He joined Aerospatiale as Chief Financial Officer in 1991, after a career with the Suez group and the French Cour des Comptes. He was executive vice president finance and strategy of Aerospatiale, Chief Financial Officer and Group Managing Director for satellites and member of the Management Board of Aerospatiale Matra. He graduated from Ecole des Hautes Etudes Commerciales (HEC), from Ecole Nationale d'Administration (ENA), and from Institut d'Etudes Politiques of Paris (IEP).

Ralph D. Crosby Jr., Head of EADS North America
Previously, Mr. Crosby was President of the Integrated Systems Sector at Northrop Grumman Corporation, Corporate Vice President and General Manager of the company's Commercial Aircraft Division and of the B-2 Division. He has a Bachelor of Science degree from the US Military Academy, a master's degree in international relations from the Graduate Institute of International Studies in Geneva and in public administration from Harvard University.

Thomas Enders, Head of Defence and Security Systems Division
He joined MBB/Dasa AG in 1991, after various posts in international research institutes, the German Parliament and the Planning Staff of the German Minister of Defense. After several years in the company's marketing sector, he became Corporate Secretary of Dasa AG in 1995. From 1996 to 2000 he was in charge of Corporate Strategy & Technology. Mr Enders holds degrees from the University of Bonn and UCLA, California.

Francisco Fernandez Sainz, Head of Military Transport Aircraft Division
Previously General Manager of Airbus España. He joined CASA in 1971 as a design engineer, occupied various positions of Product Engineering Manager (1975), Project Manager (1979), Engineering Development Director of the Technical Directorate (1982), Vice President of Engineering (1984) and Executive Vice President Programs (1997). Mr Fernandez-Sainz is a graduate of ICADE (Master in Business Administration) and is a Senior Aeronautical Engineer.

Noel Forgeard, Airbus President and Chief Executive Officer
See "2.1.1 Curriculum Vitae and other Mandates and Duties Performed in any Company of the Members of the Board of Directors".

Jean-Louis Gergorin, Head of Strategic Coordination
Mr Gergorin started his career with the French Government, becoming Head of Policy Planning of the French Foreign Ministry and member of the French German Committee on Security and Defence. Then he joined the private sector, holding senior strategic positions at Matra Lagardere and Aerospatiale Matra. He graduated from Ecole Polytechnique and Ecole Nationale d'Administration (ENA) in Paris and is an alumnus of the Stanford Executive Program.

Jean-Paul Gut, Head of EADS International
Prior to July 2000, he was Executive Chairman of Aerospatiale Matra Lagardère International and Group Managing Director of Defence and Space Transport at Aerospatiale Matra. In March 1998, he was named Director of the Lagardere Group Board of Management, responsible for International Operations and the High Technology sector. He graduated from the Institut d'Etudes Politiques of Paris (IEP), with a master's degree in Economics.

Gustav Humbert, Airbus Chief Operating Officer
Previously a member of the Dasa AG Management Board responsible for the Commercial Aircraft Division, Mr Humbert joined Messerschmitt-Bölkow-Blohm (MBB) in 1980, and became President and Chief Executive Officer of Daimler Benz Aerospace Airbus GmbH in 1994. He holds a degree in mechanical engineering and production technology from Hanover Technical University as well as a PhD in engineering from the University of Hanover, School of Machinery.

Jussi Itävuori, Head of Human Resources
Mr Itävuori joined EADS in September 2001. Previously, he worked for KONE Corporation since 1982 and was appointed in 1989 as head of Human Resources and member of Executive Committee of KONE Elevators. In 1995 he was appointed member of the Executive Committee and head of Human Resources of KONE Corporation. He served in the Finnish Air Force as a pilot and officer. He has a Master's degree from the Vaasa School of Economics, Finland.

Hans Peter Ring, Chief Financial Officer
See "2.1.1 Curriculum Vitae and other Mandates and Duties Performed in any Company of the Members of the Board of Directors".

Dietrich Russell, Head of Aeronautics Division
Former Chief Operating Officer of Airbus Industrie. Mr. Russell joined Dasa AG in 1995 where he was appointed member of the Board responsible for the Aeronautics Division. Mr. Russell graduated from the Departments of Economics and Metallurgical Engineering and holds a Doctorate in Engineering from the Technical University RWTH of Aachen. He worked for 24 years for Mannesmann before joining Dasa.

2.1.5 Internal Risk Management and Control Procedures

2.1.5.1 Purpose of Internal Control Procedures

One of Management's fundamental missions is to foster a positive internal control ("**IC**") environment at EADS in line with corporate governance best practices. Set out below is an overview of the system of policies and procedures in place within the Group that are designed to:

- enable EADS to identify and respond to significant operational, financial and compliance risks throughout the Group;
- ensure the quality of financial reporting, including design and implementation of processes to generate a flow of timely, relevant and reliable information; and
- ensure compliance with laws and regulations applicable to the Group, as well as with internal Group policies.

However well designed, IC systems have inherent limitations, such as vulnerability to circumvention or overriding of the controls in place. Consequently, no absolute assurance can be given that Group's IC procedures are, despite all care and effort, entirely effective.

2.1.5.2 Overview of Internal Control Framework

The Board of Directors has overall responsibility for the Group's IC environment. EADS' Chief Executive Officers and EADS' Chief Financial Officer, along with the Executive Committee, are responsible for ensuring that IC procedures are implemented throughout the Group, subject to the oversight of the Company's Audit Committee. Day-to-day control functions are delegated to the Group's divisions (Airbus, MTA, DS, Aeronautics, Space) and business units. The particular actors and structures involved in specific IC procedures of the Group are identified in paragraph 2.1.5.3 below in connection with the description of those procedures.

Interaction with the EADS Management Process
The Group's IC framework is intertwined with its management process, and shaped by its management principles.

A general management principle of the Group is the delegation of entrepreneurial responsibility and powers to the operational units. This principle of subsidiarity entails a clear separation of responsibilities between EADS headquarters and the divisions or business units. EADS headquarters sets the overall strategic and operational targets for the Group and assumes the ultimate responsibility for the Group's guidance. The divisions and business units retain responsibility for all operational matters and activities within their scope.

Management must have good visibility in matters related to entrepreneurial decision-making. Reporting procedures and tools have been established not only to provide this visibility, but also to enable Management to safeguard the consistent application of IC procedures throughout the organization. Under these reporting procedures, material transactions, activities and risks (including those exceeding pre-defined thresholds) must be reviewed at relevant supervisory levels of the organization.

Sources and Standards for Internal Control Procedures

The core policies, procedures and thresholds that define the Group's IC environment are communicated throughout the Group through:

- handbooks (e.g., "EADS Corporate Management Principles and Responsibilities", the "Financial Control Handbook"),
- manuals (e.g., Treasury Procedures, "Accounting Manual", "Reporting Manual") and
- guidelines (e.g., "Funding Policy").

Written internal rules govern the operations of key elements of the IC system; that is, (i) the Board of Directors, including its Audit Committee and the Remuneration and Nomination Committee, (ii) the Executive Committee and (iii) the Commercial Committee and the M&A Committee. IC procedures at certain subsidiaries and joint ventures are derived from the relevant shareholders' agreements applicable thereto. External standards influencing the EADS IC system include the "Internal Control - Integrated Framework" defined by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), as well as industry-specific standards such as those defined by the International Standards Organization ("ISO").

2.1.5.3 Overview of Specific Internal Control Procedures

The Group maintains an IC system with the purpose of providing reasonable assurance to the Board of Directors, Chief Executive Officers and Chief Financial Officer that risks arising from the Group's activities are being managed in accordance with the Group's established policies and procedures. This report focuses on the IC procedures defined at EADS headquarters, to which the Group's subsidiaries are generally subject. Certain subsidiaries, such as Airbus, and joint ventures, such as MBDA, possess IC systems that are customized to their specific businesses and are designed for conformity with the Group's IC framework. Continuity with the EADS framework is ensured, *inter alia*, through EADS' presence on such affiliates' supervisory and management bodies (*e.g.*, Airbus Shareholders' Committee, MBDA Board of Directors).

Set out below is a description of the Group's IC relating to risks that have a significant potential of affecting the Group's financial condition and results of operations.[1] See "Part 2/1.5 Risk Factors" and "1.1.7 Management of Market Risks" for additional information on these and other risks to which the Group is exposed.

Financial Reporting Controls and Procedures

At the core of the Group's IC system are the procedures designed to ensure the reliability of the financial statements and other financial information used by Management and disclosed to EADS' investors. These procedures are part of an overall financial control model integrating strategic planning, operative planning, measurement and reporting, decisions/actions and financial market communication. This integrated approach to planning and reporting aims to improve internal communication and transparency across departments and organizational units within the Group, which are essential to the preparation of accurate and reliable financial statements.

Consolidation Procedures – External Financial Reporting

The financial control model defines the planning and reporting procedures that apply to all operational units of the Group, as well as the responsibilities of the Chief Financial Officer, who is charged with developing, implementing and monitoring these procedures. Among the Chief Financial Officer's primary tasks is overseeing the generation of consolidated financial statements, which are prepared under the direct supervision of the chief accounting officer. The chief accounting officer is responsible for the operation of the Group's consolidation systems and rules and for the definition of Group-wide accounting policies, reporting rules and financial guidelines that ensure the consistency and quality of financial information reported by the business units and divisions. The accounting policies are set out in a written accounting manual, which is agreed with the Company's external auditors. Changes to the accounting manual require approval by the chief accounting officer, and, where significant changes are involved, the Chief Financial Officer or the Board of Directors (based upon the advice of the EADS Audit Committee).

Control of the financial reporting process is effected not only through the elaboration of Group-wide accounting a systems and policies, but also through an organized process for extracting quality information from the reporting units on a timely basis. The reporting process is briefly summarized below:

Business unit accounting departments record information using the Group accounting consolidation software, following the accounting principles set out in the common Group-wide accounting policy. EADS headquarters accountants responsible for each division monitor and verify the work of the relevant business unit accounting departments. The division accountants also provide direct support to the business units to ensure the correct application of the Group's accounting policies.

During the course of each reporting cycle, business unit chief financial officers frequently meet with the EADS chief accounting officer to discuss the financial information generated by the business units.

[1] This report is therefore not an exhaustive description of all of the Group's internal control procedures.

Prior to being disclosed to the public and subsequently submitted for approval to the shareholders, the consolidated financial statements are audited by the Company's external auditors, reviewed by the EADS Audit Committee and submitted for approval by the Board of Directors.

Internal Management Reporting
In addition to being used in the preparation of the Company's consolidated financial statements, the Group's financial reporting policies and procedures are also designed to provide Management frequently, at least monthly, with decision-oriented management information to control the operational performance of the Group. This information includes regular cash and treasury reports, as well as other financial information used for future strategic and operative planning and control and supervision of economic risks arising from the Group's operations.

Procedures for Monitoring Off-balance Sheet Liabilities
Within the Group, off-balance sheet liabilities mainly arise in connection with lease arrangements, extensions of guarantees and pending or threatened litigation. Business units and divisions are required to record, or to provide information on, all financial guarantees in a tracking system. Guarantees for amounts in excess of a certain threshold must be approved by the Chief Financial Officer, the Chief Executive Officers or the Board of Directors, as the case may be.

Management is currently optimizing procedures to monitor the level of certain off-balance sheet liabilities throughout the Group. In particular, a specialized guarantee tracking system is being rolled out to monitor exposure arising from guarantees throughout the Group.

For Airbus and jointly-controlled affiliates, such as MBDA, summary information on guarantee-related off-balance sheet exposure is captured by EADS headquarters based on regular reports of this exposure and discussed in the Airbus and MBDA treasury committee.

Other Significant Controls and Procedures
Treasury Procedures
Treasury management procedures, defined by the central treasury department at EADS headquarters, enhance Management's ability to identify and assess risks relating to liquidity, foreign exchange rates and interest rates. Controlled subsidiaries fall within the scope of the centralized treasury management procedures. For instance, besides daily operational interface, Airbus treasury committee meetings, comprising the EADS treasurer, the Airbus chief finance officer or treasurer, and BAE's treasurer (and/or its nominee), are held on a regular basis to oversee Airbus' foreign exchange and interest rate exposures and hedging activities, funding, and sales and project finance activities. Similar monitoring procedures exist for jointly-controlled affiliates, such as MBDA.

– *Cash Management.* Maintenance of liquidity to support operations is one of the primary missions of the central treasury department. Monthly cash planning and reporting by the central treasury department, in conjunction with the controlling department, provides Management with the information required to oversee the Group's cash profile and to initiate necessary corrective action in order to ensure overall liquidity. See "1.1.6 Liquidity and Capital Resources".

  To maintain targeted liquidity levels, and to safeguard cash, the Group has implemented a cash pooling system with daily cash sweeps from the controlled subsidiaries to centrally managed accounts. Payment fraud prevention procedures are in the process of being standardised throughout the Group.

– *Hedge Management*. Commercial operations generate material foreign exchange and interest rate exposures. See "1.1.7 Management of Market Risks – Interest Rate Risk"; "1.1.7 Management of Market Risks – Exchange Rate Risk" and "Part 2/1.5.1. Market Risks – Exposure to Foreign Currencies". A Group hedging policy is defined and updated regularly by the Board of Directors. In order to ensure that all hedging activity is undertaken in line with the Group hedging policy, the central treasury department executes all hedging transactions. The central treasury department conducts ongoing risk analysis and proposes appropriate measures to the business units/divisions with respect to foreign exchange and interest rate risk. Subsidiaries are required to calculate, update and monitor their foreign exchange and interest rate exposure with the central treasury department on a monthly basis, in accordance with defined treasury procedures.

  A significant portion of the Group's foreign exchange exposure relates to the activities of Airbus, the implementation of whose hedging policy is overseen by the Airbus Shareholders' Committee. The Airbus Treasury Committee monitors foreign currency exposure and decides on the detailed implementation of the Airbus hedging policy. However, actual hedging transactions are executed by the central treasury department.

Mergers and Acquisitions
With respect to merger, acquisition and divestiture activities of the Group, Management has implemented transaction review and approval procedures centralized at EADS headquarters. The IC procedures require all M&A transactions to be reviewed by a M&A committee on behalf of the Executive Committee prior to approval. The M&A committee is chaired by the head of strategic coordination, and includes the Chief Financial Officer and the directors of EADS headquarters-level M&A and controlling departments. Legal Affairs is permanently represented on the M&A committee, and representatives of other departments are also invited to attend meetings.

Projects that are considered non-strategic and fall under a defined value threshold are reviewed and approved by the M&A committee. High-value strategic projects require approval either by the Chief Executive Officers or the Board of Directors, in line with criteria set out in the Board of Directors' internal rules. The specific role and responsibilities of the M&A committee are defined in a set of internal rules adopted by the Executive Committee. This review and approval procedure is carried out at four critical stages of the M&A process, beginning with an analysis of the strategic fit and definition of the legal framework and concluding with a final review of the overall transaction.

Commercial Contract/Sales Activity
Commercial contracts entered into by EADS or any of its operating subsidiaries have the potential to expose the Group to significant financial, operational and legal risks. To control these risks, Management has implemented contract proposal review procedures to insure that the Group does not enter into material commercial contracts that expose it to unacceptable risk or are not in line with the Company's overall objectives. These procedures include (i) Board-approved thresholds and criteria for determining the risk and profitability profile of proposed contracts and (ii) a mandated pre-approval process for contracts defined as high-risk.

Contracts falling below the defined thresholds require approval by the Chief Financial Officer. Contracts that are deemed high-risk must be submitted to a standing Commercial Committee (with the Chief Financial Officer and the head of EADS International serving as permanent members). This committee is responsible for reviewing the proposal and submitting a decision-leading recommendation to the Chief Executive Officers. Its specific role and responsibilities are defined in a set of internal rules adopted by the Executive Committee.

In the case of Airbus, contracts are approved in accordance with Airbus' own corporate governance policy, which is based on Group - wide guidelines. Certain Airbus contracts are nonetheless required to be reviewed by the EADS Commercial Committee if they exceed specified thresholds. In general, where EADS shares control of a subsidiary with a third party, the Commercial Committee is responsible for forming the EADS position on proposed commercial contracts.

– *Sales Financing.* In connection with certain commercial contracts, the Group may agree to enter into sales financing arrangements. In respect of sales financing at Airbus, an annual sales financing budget, defined in the Group's operative planning process, is agreed by the Airbus Shareholders' Committee. The Airbus Treasury Committee approves sales financing transactions on a case-by-case basis, in line with its risk assessment guidelines. See "1.1.6 Liquidity and Capital Resources – Sales Financing" and "Part 2/1.5.1 Market Risks – Exposure to Sales Financing Risk".

Sourcing
A group with the size and complexity of EADS requires a common sourcing policy to maximize market effort and minimize inefficiencies in the procurement process. To ensure that corporate sourcing is carried out in an efficient and ethical manner, a set of common purchasing processes, in line with a common sourcing strategy, is defined and implemented by the head of corporate sourcing and the procurement directors board.

Specialized Internal Control Functions
Internal Audit
Internal audits are conducted by the EADS corporate audit department under the direction of the Corporate Secretary. Based upon an approved annual audit plan and a global risk assessment of the Group's activities, the corporate audit department (i) reviews operational processes for risk management and operating efficiency improvement opportunities and (ii) monitors compliance with legal requirements and internal policies, process guidelines and procedures (*e.g.*, compliance with Group-wide accounting policies). Internal audit also involves *ad hoc* reviews, performed at the request of Management, focusing on current (*e.g.*, suspected illegal activities) and future (*e.g.*, contract management) risks.

Controlling
The core planning, tracking and reporting tasks of the controlling department provide it with a global overview of the Group. As a result, the controlling department is also called on to interact with other headquarters functions to ensure that corporate activities, such as M&A and sourcing, are carried out in accordance with Group policy and strategy. This global overview also makes controlling an integral element of the risk assessment process, and the controlling department is responsible for managing the Group's insurance coverage.

Legal Compliance
The Group is subject to a myriad of legal regimes in each jurisdiction in which it conducts business. The EADS Legal Affairs directorate, in coordination with the division and business unit legal departments, is responsible for implementing and overseeing the procedures designed to ensure that the Group's activities comply with all applicable laws, regulations and requirements. It is also responsible for overseeing all litigation affecting the Group, as well as for the legal safeguarding of the Group's assets, including intellectual property. The Legal Affairs directorate is directly implicated in key control processes. For example, it is involved in the legal aspects of M&A transactions and the review and approval of commercial contracts.

Legal Affairs, together with the Corporate Secretary, also plays an essential role in the design and administration of (i) the EADS corporate governance procedures and (ii) the legal documentation underlying the delegation of powers and responsibilities and defining the Group's management and IC environment.

2.1.5.4 Outlook for Evolution of Internal Controls

The overall IC process is currently the subject of a comprehensive review and evaluation process being conducted in coordination with outside consultants. Consequently, the IC environment described in this report is likely to evolve in the coming years.

Specifically, the IC and risk management review process is intended to:

– ensure compliance with current and expected future Dutch requirements, in particular the Dutch Corporate Governance Code, while taking into account German, French, Spanish and U.S. regulations;

– prepare the Group to meet the standards of the Sarbanes-Oxley Act relating to IC over financial reporting and disclosure controls and procedures;

– identify weak areas in the Group's existing IC and propose improvements in risk management procedures;

– enable the Group to manage and minimize its control risks; and

– combine the documentation and analysis of control procedures with the objective of an integrated risk management system (including financial statement, compliance and operational risks).

2.2 Interests of Directors and Principal Executive Officers

2.2.1 Compensation Granted to Directors and Principal Executive Officers

EADS' remuneration policy aims at attracting and retaining talents that will contribute to the Group's business success. The compensation policy is therefore designed to focus efforts on what the Group wants to value and reward.

The Board of Directors is composed of Non-Executive Directors and Executive Directors (who are also members of the Executive Committee).

Compensation of the Directors

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 of Directors' meetings and committee meetings (if such committee meetings take place on a different date than the Board of Directors' meetings) of € 5,000 per director and € 10,000 per chairman, per meeting and (iii) a variable part composed of a profit sharing calculated on the basis of EBIT* results of the Group, of € 50,000 per director and € 100,000 per chairman at 100% target achievement. The rules for the profit sharing calculation on the basis of EBIT* results of the Group for the Non-Executive Directors are the same as for the members of the Executive Committee (see below "Compensation of the Members of the Executive Committee"). The Non-Executive Directors do not have termination packages.

The Executive Directors receive neither fees for participation in board meetings nor any dedicated compensation as members of the Board of Directors in addition to their compensation as members of the Executive Committee (see below "Compensation of the Members of the Executive Committee"). The Executive Directors are eligible for benefits under stock option plans (see "2.3.3 Options Granted to Employees") and under employee share ownership plans in their capacity as qualifying employees (see also "2.3.2 Employee Share Offering"). Additionally, the Executive Directors are entitled to pension benefits.

The amounts of the various components constituting the compensation granted to Executive Directors and Non-Executive Directors during 2003 together with additional information such as the number of stock options and details of the pension benefits entitlements of the Executive Directors are set out in "Notes to the Statutory Financial Statements – Note 9: Remuneration".

The Executive Directors are also entitled to a termination package when they leave the Company as a result of a decision of the Company. Such termination package varies according to the type of their contracts (either fixed term contracts of five years with full pay until the end of the contract period plus an indemnity of up to a maximum of 18 months of their target income or contracts for an indefinite term with an indemnity of up to a maximum of 24 months of their target income).

As of the date of this document, the members of the Board of Directors (including those who are also members of the Executive Committee) hold a total of 39,788 EADS shares (not including shares held through mutual funds).

Compensation of the Members of the Executive Committee

The members of the Executive Committee, including Executive Directors but also members of the Executive Committee who are not members of the Board of Directors, are entitled to receive an accumulated total target compensation on a full year basis of € 12,294,955. This target compensation is divided into a 50% fixed part and a 50% variable part (in practice, the variable part can exceed 50% of the total compensation in case of overachievement of the targets). The variable part is calculated on the basis of two equal components: (i) a profit sharing calculated on the basis of EBIT* results of the Group (starting 2004, a 25% cash indicator will be introduced as a complementary component to EBIT*) and (ii) a bonus corresponding to individual achievements.

The total compensation paid by EADS and all its Group companies to the two Chief Executive Officers of the Company, Mr. Philippe Camus and Mr. Rainer Hertrich, during the year 2003 was € 1,963,500 each.

2.2.2 Options Granted to the two Chief Executive Officers

See "2.3.3 Options Granted to Employees".

2.2.3 Related Party Transactions

EADS being a company incorporated under Dutch law, Articles L.225-38 to L.225-43 and L.225-86 to L.225-91 of the French *Code de Commerce* on related party transactions are not applicable to it.

Article 2:146 of the Dutch Civil Code provides as follows: "Unless the articles of association provide otherwise, a company (naamloze vennootschap) shall be represented by its board of supervisory directors in all matters in which it has a conflict of interest with one or more of the members of its board of directors. The general meeting of shareholders shall at all times have powers to designate one or more persons for this purpose." In the case of EADS, the Articles of Association do provide otherwise since they enable the Board of Directors to have power to represent the Company in matters where the Company has a conflict of interest with one or more members of the Board of Directors.

During the year 2003, no agreement was entered into by the Company with one of its directors or principal officers or a shareholder holding more than 5% of the voting rights of the Company outside the ordinary course of business and in conditions other than arm's length conditions.

For a description of the relationships between the Company and its principal shareholders, see "Part 2/3.3.2 Relationships with Principal Shareholders".

As indicated in "Part 2/3.1.3.1 Ongoing Disclosure Obligations", pursuant to the Spanish Financial Law the Company is obliged to provide the CNMV with certain information in relation to every transaction carried out with any related party.

2.2.4 Loans and Guarantees Granted to Directors

EADS has not granted any loans to its Directors or members of the Executive Committee.

2.3 Employee Profit Sharing and Incentive Plans

2.3.1 Employee Profit Sharing and Incentive Agreements

EADS' remuneration policy is strongly linked to the achievement of individual and Company objectives, both for each division and for the overall Group. A stock option plan has been established for the senior management of the group (see "– Options Granted to Employees") and employees were offered shares at favourable conditions at the time of the public offering and listing of EADS (see "– Employee Share Offering").

EADS France has profit sharing plans (*accords de participation*), in accordance with French law, and specific incentive plans (*accords d'intéressement*), which provide bonuses to employees based on the achievement of productivity, technical or administrative milestones.

EADS Deutschland GmbH's remuneration policy is, to a large extent, flexible and strongly linked to the operating profit of the company, the increase in value of the company and the achievement of individual objectives.

EADS CASA, which does not have a profit sharing policy, allows technicians and management to receive profit-related pay, subject to the achievement of the general company objectives and individual performance.

2.3.2 Employee Share Offering

As part of its initial public offering, EADS offered to qualifying employees approximately 1.5% of its total share capital after the global offering. This employee offering of up to 12,222,385 shares included an option allowing qualifying employees to leverage their investment in the shares they purchased. Under this option, the investment consisted of the amount paid plus an amount resulting from a swap agreement of the investment management company for this option, that equalled 9 times such amount paid. Qualifying employees were offered shares at a price of € 15.30, being the price for the retail offering, less a discount of 15%.

The employee offering was open only to employees who:

- had at least three months' seniority;
- had French, German or Spanish employment contracts; and
- were employed by companies incorporated under French, German or Spanish law in which EADS held (i) the majority of the share capital or (ii) at least 10% of the share capital, provided such minority-owned companies were designated as eligible by EADS.

Depending on whether the employee purchased shares through a French, German or Spanish plan, directly or via a mutual fund, the employee is restricted from selling the shares for one of the following lock-up periods: 18 months, 3 years, 5 years or 6 years.

A total number of 11,769,259 shares were subscribed for in the employee offering. Shares were delivered on September 21, 2000.

In October 2001, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,017,894 shares of a nominal value of € 1 each.

The employee offering (*note d'opération préliminaire* approved by the COB on October 8, 2001 under number 01-1200 and *note d'opération définitive* approved by the COB on October 13, 2001 under number 01-1209) was open only to employees who:

- had at least three months' seniority;

- were employed by (i) EADS or (ii) one of its subsidiaries or (iii) a company in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered office is located in South Africa, Germany, Brazil, Canada, Spain, the United States, the United Kingdom, France, Italy, Morocco, Mexico and Singapore.

The employee offering was divided into two tranches:

– shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of € 10.70 per share;
– shares subscribed for by qualifying employees directly were offered for a price of € 10.70 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 2,017,894 shares were subscribed for in the employee offering. Shares were delivered on December 5, 2001.

In October 2002, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,022,939 shares of a nominal value of € 1 each.

The employee offering (*note d'opération préliminaire* approved by the COB on September 30, 2002 under number 02-1062 and *note d'opération définitive* approved by the COB on October 11, 2002 under number 02-1081) was open only to employees who:

- had at least three months' seniority;

- were employed by (i) EADS or (ii) one of its subsidiaries or (iii) a company in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered office is located in Germany, Brazil, Canada, Spain, the United States, the United Kingdom, France, Italy, Mexico and Singapore.

The employee offering was divided into two tranches:

– shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of € 8.86 per share;
– shares subscribed for by qualifying employees directly were offered for a price of € 7.93 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 2,022,939 shares were subscribed for in the employee offering. Shares were delivered on December 4, 2002.

In October 2003, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,027,996 shares of a nominal value of € 1 each.

The employee offering (*note d'opération* approved by the COB on September 25, 2003 under number 03-836) was given only to employees who:

- had at least three months' seniority;

- were employed by (i) EADS on (ii) one of its subsidiaries or (iii) a company in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered office is located in Germany, Belgium, Canada, Spain, the United States, the United Kingdom, France, Ireland, Mexico, the Netherlands and Singapore.

The employee offering was divided into two tranches:

– shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of € 12.48 per share;

– shares subscribed for by qualifying employees directly were offered for a price of € 12.48 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 1,686,682 shares were subscribed for in the employee offering. Shares were delivered on December 5, 2003.

2.3.3 Options Granted to Employees

At its May 26, 2000, October 20, 2000, July 12, 2001, August 9, 2002 and October 10, 2003 meetings, the Board of Directors of the Company, using the authorisation given to it by the shareholders' meetings of May 24, 2000, May 10, 2001 and May 6, 2003, approved the granting of stock options for subscription of shares in the Company. The principal characteristics of these options are summarised in the table below:

	First Tranche	Second Tranche
Date of general meeting	May 24, 2000	May 24, 2000
Date of board meeting	May 26, 2000	October 20, 2000
Number of options that were granted	5,324,884	240,000
Number of options outstanding	5,060,400	240,000
Of which: shares that may be subscribed by directors and officers	720,000	60,000
Total number of eligible employees	Approximately 850	34
Date from which the options may be exercised	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.	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.
Date of expiration	Tenth anniversary of the date of grant of the options	Tenth anniversary of the date of grant of the options
Exercise price	€ 20.90	€ 20.90
Number of options exercised	0	0

	Third Tranche	Fourth Tranche
Date of general meeting	May 10, 2001	May 10, 2001
Date of board meeting	July 12, 2001	August 9, 2002
Number of options that were granted	8,524,250	7,276,700
Number of options outstanding	7,818,725	7,205,975
Of which: shares that may be subscribed by:		
– Mr. Philippe Camus(*)	135,000	135,000
– Mr. Rainer Hertrich(*)	135,000	135,000
– the 10 employees having being granted the highest number of options during the year 2001 (third tranche) and 2002 (fourth tranche)	738,000	808,000
Total number of eligible beneficiaries	Approximately 1,650	Approximately 1,562

	Third Tranche	Fourth Tranche
Date from which the options may be exercised	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.	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.
Date of expiration	Tenth anniversary of the date of grant of the options	Tenth anniversary of the date of grant of the options
Exercise price	€ 24.66	€ 16.96
Number of options exercised	0	0

	Fifth Tranche
Date of general meeting	May 6, 2003
Date of board meeting	October 10, 2003
Number of options that may be subscribed	7,563,980
Number of options outstanding	7,563,980
Of which: shares that may be subscribed by:	
– Mr. Philippe Camus(*)	135,000
– Mr. Rainer Hertrich(*)	135,000
– the 10 employees having being granted the highest number of options during the year 2003	808,000
Total number of eligible beneficiaries	Approximately 1,491
Date from which the options may be exercised	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.
Date of expiration	Tenth anniversary of the date of grant of the options
Exercise price	€ 15.65
Number of options exercised	0
Number of options cancelled during the year 2003	0

(*) For more information in respect of options granted to the Executive Directors, see "Notes to the Statutory Financial Statements – Note 9: Remuneration".

3.1 2004 Financial Outlook

Revenues

For 2004, the Company is targeting generally stable revenues of approximately € 29 to 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 U.S. Dollar than in 2003 (€-U.S. $ 1.20, as compared to €-U.S. $ 1.10) for the calculation of the portion of revenues that is naturally hedged by U.S. dollar-denominated purchasing (amounting to approximately 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 are expected be stable in 2004, supported by a robust order book (including 10 civil telecommunications satellites). Major programs such as the £ 2.5 billion Paradigm contract (Skynet5 secure communication services for the U.K. 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 programs in the other Divisions (Military Transport Aircraft, Aeronautics, Defence and Security Systems) is expected to prompt revenue growth. The strongest drivers of growth in 2004 will be the A400M, the Tiger and NH90 helicopters and missile programmes.

EBIT Pre-Goodwill Amortisation and Exceptionals

Management expects an increase of operating results in the year 2004. Ahead of the commercial aviation market upturn expected in 2005, EADS targets earnings before interest and taxes, pre-goodwill amortization and exceptionals ("**EBIT***") result of approximately € 1.8 billion in 2004 (€ 1.5 billion 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 reliability. This target is a milestone on the road to double digit EBIT* margins in the medium-term, and supports 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. This change had no material effect in 2003, but it is expected that approximately € 100 million of development costs will be capitalised in 2004. This accounting change is included in the 2004 EBIT* target of € 1.8 billion.

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, Management will focus on the profitable execution of these large programmes and to 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 the Defence and Communication Systems business units.

While the potential slight decrease in Airbus deliveries in 2004 and the continuing A380 R&D effort are expected to hamper 2004 EBIT*, the anticipated turnaround of the Space Division should act as a significant source of increased profitability. The dramatic restructuring plan currently under implementation and a number of organizational improvements are the main drivers of the expected swing to breakeven EBIT* of the Space Division in 2004.

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 for 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 not expected to increase by more than approximately U.S.$ 0.9 billion for 2004.

3.2 2004 Calendar of Financial Communication

2004 Annual Results Release:
March 8, 2004

Annual General Meeting:
May 6, 2004

First Quarter 2004 Results Release:
May 12, 2004

Global Investor Forum:
June 21-22, 2004

First Half 2004 Results Release:
July 29, 2004

Third Quarter 2004 Results Release:
November 4, 2004

Reference Document Thematic Index

In order to simplify the reading of this document which is filed as part of the EADS Reference Document for the financial year 2003, the following thematic index permits the identification of the main information required by the *Autorité des Marchés Financiers* within the framework of its regulation.

This document is also available at the following addresses:

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In France
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75781 Paris cedex 16 – France

In Germany
81663 Munich – Germany

In Spain
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