

First Half-year 2003 Report

Condensed Interim Consolidated Financial Statements of EADS N.V. for the first half-year of 2003

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Consolidated Income Statements

	January 1 - June 30, 2003		January 1 - June 30, 2002		Deviation	
	M €	%	M €	%	M €	%
Revenues	13.060	100	13.974	100	-914	-7
Cost of sales	-10.413	-80	-11.384	-81	971	-9
Gross margin	2.647	20	2.590	19	57	2
Selling, administrative & other expenses	-1.231	-10	-1.230	-9	-1	0
Research and development expenses	-1.076	-8	-876	-7	-200	23
Other income	79	1	145	1	-66	-46
Amortization of goodwill	-281	-2	-296	-2	15	-5
Income before financial result, income taxes and minority interest	138	1	333	2	-195	-59
Financial result	-54	0	14	0	-68	-486
Income taxes	-151	-2	-229	-1	78	-34
Minority interest	1	0	-27	0	28	-104
Net income (loss)	-66	-1	91	1	-157	-173
	€		€		€	
Earnings per share						
Basic	-0,08		0,11		-0,19	
Diluted	-0,08		0,11		-0,19	

Consolidated Income Statements for the second Quarter 2003 and 2002

	April 1 - June 30, 2003		April 1 - June 30, 2002		Deviation	
	M €	%	M €	%	M €	%
Revenues	7.540	100	7.566	100	-26	0
Cost of sales	-5.959	-79	-6.145	-81	186	-3
Gross margin	1.581	21	1.421	19	160	11
Selling, administrative & other expenses	-682	-9	-611	-8	-71	12
Research and development expenses	-548	-7	-473	-6	-75	16
Other income	24	0	33	0	-9	-27
Amortization of goodwill	-141	-2	-149	-2	8	-5
Income before financial result, income taxes and minority interest	234	3	221	3	13	6
Financial result	-40	-1	59	0	-99	-168
Income taxes	-152	-2	-133	-1	-19	14
Minority interest	-15	0	-31	0	16	-52
Net income	27	0	116	2	-89	-77
	€		€		€	
Earnings per share						
Basic	0,03		0,14		-0,11	
Diluted	0,03		0,14		-0,11	

Consolidated Balance Sheets

	June 30, 2003		December 31, 2002		Deviation	
	M €	%	M €	%	M €	%
Fixed assets						
Intangible assets	9.616	18	9.789	21	-173	-2
Property, Plant and Equipment	10.660	21	10.509	22	151	1
Financial Assets	4.947	10	4.875	10	72	1
	25.223	49	25.173	53	50	0
Current assets						
Inventories	3.645	7	2.700	6	945	35
Trade receivables	4.025	8	4.114	9	-89	-2
Other receivables and other assets	7.519	15	5.256	11	2.263	43
Securities	4.825	9	4.497	9	328	7
Cash and cash equivalents	1.777	4	1.703	4	74	4
	21.791	43	18.270	39	3.521	19
Deferred tax assets	2.973	6	2.992	6	-19	-1
Prepaid expenses	1.018	2	965	2	53	5
Total assets	51.005	100	47.400	100	3.605	8
Shareholders' equity						
Capital Stock	811	2	811	2	0	0
Reserves	9.352	18	9.658	20	-306	-3
Accumulated other comprehensive income	4.156	8	2.452	5	1.704	69
Treasury shares	-156	0	-156	0	0	0
	14.163	28	12.765	27	1.398	11
Minority interests	1.771	4	1.361	3	410	30
Provisions	8.400	16	8.248	17	152	2
Liabilities						
Financial liabilities	5.688	11	4.976	10	712	14
Trade liabilities	4.773	9	5.070	11	-297	-6
Other liabilities	10.592	21	10.246	22	346	3
	21.053	41	20.292	43	761	4
Deferred tax liabilities	2.948	6	2.014	4	934	46
Deferred income	2.670	5	2.720	6	-50	-2
Total liabilities and shareholders' equity	51.005	100	47.400	100	3.605	8

Consolidated Cash Flow Statements

	January 1 - June 30,	January 1 - June 30,
	2003	2002
	M €	M €
Net income (loss)	-66	91
Income (Loss) applicable to minority interest	-1	27
Depreciation and amortization of fixed assets	1.089	1.131
Valuation adjustments	54	3
Change in deferred taxes	-22	87
Results on disposals of fixed assets/businesses	-7	-52
Results of companies accounted for by the equity method	-69	-58
Change in provisions	-130	-207
Change in other operating assets and liabilities	425	-53
Cash provided by operating activities	1.273	969
<i>Investments:</i>		
- Payments for investments in intangible and fixed assets	-823	-855
- Proceeds from disposal of intangible and fixed assets	37	58
- Additions of subsidiaries (net of cash)	-9	-6
- Proceeds from disposal of subsidiaries	0	52
- Payments for investments in other financial assets	-262	-926
- Proceeds from disposal of other financial assets	94	584
- Additions in equipment of leased assets	-248	-35
- Proceeds from disposal of leased assets	14	36
- Additions in finance lease receivables	-131	-83
- Proceeds from disposal in finance lease receivables	16	156
Change of securities	71	-290
Change in cash from changes in consolidation	-158	-7
Cash used for investing activities	-1.399	-1.316
Change in financial liabilities	857	-571
Dividends paid to shareholders	-240	-404
Dividends paid to minorities	-5	0
Treasury shares purchased	0	-79
Others	1	3
Cash provided by (used for) financing activities	613	-1.051
Effect of foreign exchange rate changes on cash and cash equivalents	-20	-71
Net increase (decrease) in cash and cash equivalents	467	-1.469
Cash and cash equivalents at beginning of period	5.401	7.481
Cash and cash equivalents at end of period	5.868	6.012
Additional securities medium-term	734	831
Cash and securities as stated in the Balance Sheet	6.602	6.843

Cash used for investing activities in the first half-year 2003 does include divestment of securities of 71 M € (first half-year 2002: investment of -290 M €); these medium-term securities are included in Securities as stated in the balance sheet.

As of June 30, 2003, 584 M € are included in Cash and cash equivalents as stated in the consolidated Cash Flow Statement, which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAe Systems and Finmeccanica. Additionally, Cash and cash equivalents as stated in the consolidated Cash Flow Statement include 179 M € representing the amount Airbus has deposited at BAe Systems.

Consolidated Statements of Changes in Shareholder's Equity

	M €
Equity as of January 1, 2003	12.765
Net loss	-66
Dividends	-240
OCI	1.704
Equity as of June 30, 2003	14.163
Equity as of January 1, 2002	9.877
Net income	91
Dividends	-403
OCI	2.538
Treasury shares purchased	-79
Equity as of June 30, 2002	12.024

Notes to the Interim Consolidated Financial Statements (according to IFRS) as at June 30, 2003**1. The Company**

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

2. Accounting policies

These Condensed Interim Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim consolidated financial statements are consistent with those used in the annual Consolidated Financial Statements for the year ended December 31, 2002, which are disclosed as an integral part of the Group's Annual Report 2002. The annual Consolidated Financial Statements were authorised for issue by EADS' Board of Directors on March 7, 2003. Except for the non-capitalization of R&D costs, EADS is following International Financial Reporting Standards (IFRS) principles.

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

Income tax expense is recognized based on the best estimate of the weighted-average annual income tax rate expected for the full year applied on pre-tax income. The estimated annual average income tax rate for 2003 is 41 % (projected in the first half-year 2002: 39 %). Pre-tax income is determined before goodwill amortization charge.

These Condensed Interim Consolidated Financial Statements should be read in conjunction with the annual Consolidated Financial Statements 2002.

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

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

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

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

4. Segment information

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

- *Airbus* — Development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats.
- *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 trainer aircraft; and provision of defence electronics, defence-related telecommunications solutions; and logistics, training, testing, engineering and other related services.
- *Space* — Development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers; and provision of launch services.

The following table presents information with respect to the Group's business segments. Consolidation effects, the holding function of EADS headquarters and other activities not allocable to the divisions are disclosed in the column "HQ/ Conso."

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

Condensed Interim Consolidated Financial Statements for the six months ending June 30, 2003

in M €	Airbus	Military Transport	Aero-nautics	Defence & Security Systems	Space	HQ/ Conso.	Consolidated
Six months ended June 30, 2003							
Revenues	8.773	268	1.613	1.902	1.008	-504	13.060
Research and development costs	901	11	34	103	27		1.076
EBIT pre goodwill amort. and exceptionals (see definition below)	621	-8	59	-28	-131	79	592
Six months ended June 30, 2002							
Revenues	9.870	234	1.606	1.856	882	-474	13.974
Research and development costs	680	22	52	99	24	-1	876
EBIT pre goodwill amort. and exceptionals (see definition below)	874	-72	29	-37	-85	66	775

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

A reconciliation from Income before financial result, income taxes and minority interests to EBIT pre goodwill amortization and exceptionals is set forth in the following table (in M €):

in M €	Jan. 1- June 30, 2003	Jan. 1- June 30, 2002
Income before financial result, income taxes and minority interests	138	333
Income from associates	55	29
	193	362
Goodwill and exceptionals:		
Goodwill amortisation	281	296
Fair value adjustment	118	117
EBIT pre goodwill amortization and exceptionals	592	775

5. Significant profit and loss statement items

Revenues in the first half-year 2003 reached 13.060 M € (first half-year 2002: 13.974 M €). The decrease mostly reflects lower aircraft deliveries of Airbus and a weaker US-Dollar. This was partly compensated by 100 % consolidation of Astrium in 2003 (previous year 75 % consolidation) with an impact of 163 M € and growth in Defence & Security Systems division.

Research and development costs of 1.076 M € (first half-year 2002: 876 M €) increased mainly because of the Airbus A 380 project.

Other income of 79 M € (first half-year 2002: 145 M €) decreased, as last year it comprised the gain on the disposal of the 50 % shares in Aircelle by Airbus (63 M €).

The **financial result** includes net interest charge of -101 M € (first half-year 2002: -58 M €), which changed mostly due to higher interest expenses for refundable government advances in Airbus division and a lower average Net Cash-position. Income from investments of 55 M € (first half-year 2002: 29 M €) was mainly influenced by the positive result of Dassault Aviation whereas the first half-year 2002 also included a depreciation on the Arianespace investment. Since for the first half-year no financial figures are available yet from Dassault Aviation, the prior half-year net income according to Dassault Aviation Statutory Financial Statements was used as a basis to report the current half-year 's income from this equity investment, adjusted by dividends received. Moreover, other financial result amounted to -8 M € (first half-year 2002: 43 M €). Prior half-year's other financial result was mainly influenced by foreign currency financial instruments, which did not qualify for hedge accounting according to IAS 39.

6. Significant balance sheet items

Intangible assets include 9.397 M € of Goodwill, which is decreased according to the amortization plan. Due to the 100 % consolidation of Astrium, Goodwill has increased by 65 M €.

Due to foreign exchange-rate effects, **Property, plant and equipment** only increased by 151 M € to 10.660 M €. The biggest contribution to the increase is made by Airbus (159 M €, excluding foreign exchange-rate effect: 284 M €), which resulted mostly from strong capital expenditures related to the A380 project.

Financial Assets of 4.947 M € (prior year 4.875 M €) increased – excluding foreign exchange-rate effect – by 291 M €, coming mainly from new customer financing.

Inventories, net of customer advances, include the impact of the 100% consolidation of Astrium and were affected by a weaker \$ / €-rate on US-Dollar-denominated customer advance payments.

The decrease in **Trade receivables** is mainly due to a higher level of customer payments in Defence & Security Systems and Aeronautics, driven by a high level of revenues at prior years' end. This effect is partly balanced out by Airbus and the additional consolidation of 25 % of Astrium in Space.

The development of the \$ / € -rate (from 1 € = 1,05 \$ to 1 € = 1,14 \$) led to a positive mark-to-market revaluation of hedging instruments according to IAS 39 and to an increase by 2.508 M € to 5.327 M € classified as part of **Other receivables and other assets**.

Provisions include 3.608 M € for retirement plans and similar obligations, 164 M € of provisions for financial instruments and 4.628 M € of other provisions. The increase of 152 M € resulted mainly from provisions for pensions, due to the 100 % consolidation of Astrium.

Financial liabilities have increased mainly due to the issuance of a Eurobond loan of 1.000 M €. Additionally, an amount of 236 M € has been restructured from a risk sharing bank loan to a normal bank loan and was thus reclassified from other liabilities. Repayment of bank loans by Airbus (-226 M €) and a foreign exchange-rate effect of -427 M € led to a reduction of this position.

Other liabilities mainly include 4.565 M € of European Governments refundable advances and 3.607 M € of customer advance payments.

7. Significant cash flow items

Cash provided by operating activities with the amount of 1.273 M € mainly results from a positive EBIT and a positive cash flow from change in working capital. The reclassification of 236 M € as mentioned above has not been considered in the cash flow statement because of its neutrality on the balance of Cash and cash equivalents.

Cash used for investing activities (-1.399 M €) is mainly driven by an outflow for investments in fixed assets (capital expenditures -823 M €) and customer finance activities. Also included is the impact on Cash and cash equivalents resulting from the 100% (previous year 75 %) consolidation of Astrium of -160 M €.

Cash provided by financing activities amounts to 613 M € and contains mainly a new Eurobond loan of 1 billion € issued in 2003. It is reduced by the dividends paid to shareholders of - 240 M € and repayment of bank loans by Airbus (-226 M €).

8. Contingencies

Since the last balance sheet date (December 31, 2002), there were no significant changes in contingent liabilities.

9. Number of shares

The total number of shares outstanding is 800.957.248 and 804.331.343 as of June 30, 2003 and 2002, respectively. EADS' shares are exclusively ordinary shares with a par value of 1,00 €. During the first half-year 2002, EADS repurchased 4.844.218 ordinary shares in conjunction with the share-buyback program as approved by the general shareholders' meeting in 2001. No shares were repurchased during the first half-year 2003.

10. Earnings per share

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

	January 1, 2003 to June 30, 2003	January 1, 2002 to June 30, 2002
Net income (loss) attributable to shareholders	-66 M €	91 M €
Weighted average number of ordinary shares outstanding	800.957.248	807.655.628
Basic earnings per share	-0,08 €	0,11 €

For the calculation of the **diluted earnings per share**, the weighted average number of ordinary shares is adjusted to assume conversion of all potential ordinary shares. The Group's only category of dilutive potential ordinary shares is stock options. Since the exercise price of the stock options under all existing stock option plans initiated by the Group is exceeding the share price of EADS shares, to include these potential ordinary shares would be anti-dilutive. As a consequence, net income as well as the weighted number of ordinary shares in issue are the same for both basic and diluted earnings per share.

11. Dividend policy

Following the annual shareholders' meeting held on May 6, 2003, a dividend of 0,30 € per ordinary share was paid for the business year 2002.

12. Related party transactions

The Group has entered into various transactions with related companies in 2003 and 2002 that have all been carried out in the normal course of business. As is the Group's policy, all related party transactions have to be carried out at arm's length. Transactions with related parties include the French State, DaimlerChrysler, Lagardère, and SEPI (Spanish State). Except for the transactions with the French State the transactions are not considered material to the Group either individually or in the aggregate. The transactions with the French State include mainly sales from the Aeronautics, Defence & Security Systems and Space divisions.

13. Number of employees

The number of employees at June 30, 2003 is 107.845 as compared to 103.058 at June 30, 2002 reflecting 100% consolidation of Astrium (previous year 75 %) as well as new employments at Airbus in relation with the A380 program ramp up.

14. Subsequent events

Nortel Networks and EADS will re-organize their joint telecommunications activities in France and Germany. Therefore, Nortel Networks will acquire those shares of Nortel Networks Germany GmbH & Co. KG and Nortel Networks France SAS, which are currently held by EADS. At the same time, EADS will increase its ownership in EADS Telecom to 100 percent as a result of acquiring Nortel Networks current ownership stake in that company.

These transactions are subject to the receipt of customary regulatory approvals, which are expected to be received within the third quarter.