

aero-notes

Letter to EADS Shareholders

Dear Shareholders,



Whilst Iraq war is over, SARS outbreaks and global economics uncertainties, as well as continuing airlines financial difficulties, capture the headlines. EADS is affected, but we are proving that a solid, disciplined and integrated management can steer this young company through these challenging times. We remain focused on our top priorities : to protect cash and profits; to foster revenue and value growth, by pursuing defence market opportunities, and continued investment into tomorrow's market leaders such as the A380; to preserve competitiveness by reigning costs in; and to deliver excellent returns.

For the second year in EADS history, we have fulfilled our promises and met or exceeded all financial targets. In year 2002, our efforts to develop the Defence business (military aircraft of all types, missile systems, defence electronics, military satellites,.....) were rewarded with successes like the selection as a supplier to the preferred bidder of the US Coast Guard Deepwater programme, contract signatures for Meteor and Taurus missiles, and a pre-selection by Austria for the Eurofighter.

Recent events also confirmed the leadership of Airbus' management and product portfolio. In a market plagued by airlines financial difficulties, Airbus has adjusted its production capacity to the weakened market and has won new orders, whilst continuing successfully to protect its profitability and limit its customer financing exposure. Despite this difficult environment, Airbus has continued to invest into its future through the development of its very large future aircraft, A380, which is progressing as planned. This down-cycle is definitely harsh and unpredictable, but it is not the first one in 30-years of Airbus history: benefiting from lessons of the past, a complete product family, and competitive scale, Airbus is well positioned to weather this cycle.

We renew our strong commitment to prudent management, cash preservation and cost savings, because we strongly believe they are key to transforming EADS into an increasingly efficient company. We intend to emerge from these difficult times stronger and more mature than ever before.

As you already know, Jean-Luc Lagardère, Chairman of EADS Board of Directors passed away on March 14. He was a great leader of the European Aerospace Industry and a visionary entrepreneur. The Group will miss his expertise and his charisma. His son, Arnaud Lagardère, will follow in his footsteps as Chairman of the Board, and he has enthusiastically committed himself to pursuing his father's legacy.

Together, we will continue to drive EADS on the path towards global leadership.

Yours faithfully,

Philippe Camus and Rainer Hertrich
EADS CEOs



2002 annual results

EADS delivers solid performance – well prepared for further challenges

In 2002, in a difficult environment, EADS achieved solid results, meeting or exceeding all its financial targets. Especially, net cash position was much better than expected. While Airbus and the Aeronautics Division were the main contributors to EADS' profitability, the Defence and Civil Systems Division achieved a strong turnaround, ahead of plan.

In millions of euros	2002	2001	Change
Revenues	29,901	30,798	-3%
EBITDA ⁽¹⁾	3,031	3,213	-6%
EBIT ⁽²⁾	1,426	1,694	-16%
Research and Development costs ⁽³⁾	2,096	1,841	+14%
Net Income	-299	1,372	—
Net Income pre-goodwill amortization and exceptionals	696	809 ⁽⁴⁾	-14%
Net Cash position	1,224	1,533	-20%
Order intake ⁽⁵⁾	31,009	60,208	-48%
Order book ⁽⁵⁾	168,339	183,256	-8%
Number of employees	103,967	102,967	+1%

1) Earnings before interest, taxes, depreciation and amortization

2) Earnings before interest and taxes, pre-goodwill amortisation and exceptionals

3) Reclassification of jigs and tools depreciation from R&D to cost of sales € 205 million in 2001

4) The difference to the previously reported € 936 million figure is due to a restatement of the 2001 figure caused by a partial reallocation of exceptionals to minorities amounting to € 127 million

5) Based on gross prices

Revenues in line and EBIT margin pre-R&D maintained at 11.8% (11.5% in 2001)

Revenues were maintained at € 29.9 billion (-3% from 2001), reflecting, as anticipated, lower Airbus deliveries (325 in 2001 and 303 in 2002) and the exchange rate effect of a weaker US dollar. EADS achieved an EBIT⁽²⁾ of € 1,426 million slightly above its target. Before Research and Development (R&D) costs, EADS slightly improved its EBIT margin despite lower Airbus deliveries. R&D costs increased, as anticipated, from € 1.8 billion to € 2.1 billion particularly due to the A380 programme ramp up.

Solid financial structure

Net Cash position of € 1.2 billion at the end of 2002 is better than originally anticipated. Free Cash Flow without aircraft financing amounted to € 0.6 billion, after high capital expenditures particularly for the A380 programme, confirming the Company's ability

to self-finance this programme. Customer financing gross exposure was successfully contained. EADS has also pursued its policy to hedge against US\$ exchange rate volatility and the year 2003 is already completely hedged against currency fluctuations, as well as a large part of the 2004-2006 exposure.

The dividend proposal of € 0.30 per share (gross amount) for the business year 2002 (€ 0.50 for 2001) is consistent with the policy to pay out about 2% of EADS' market capitalisation.

Sustained order intake and solid order book

Order intake of € 31 billion remains above revenues. It demonstrates sustained demand for the Company's commercial and defence products and evidences EADS' resilience to market changes, thus further contributing to the order book.

The EADS order book remained strong at nearly € 170 billion, which represents more

than five years of business and is still unparalleled in the global aerospace and defence industry. Its decrease from 2001 is mainly attributable to the revaluation of the order book based on a weaker US\$ exchange rate.

Net Income affected by exceptional items

Net Income in both 2001 and 2002 was significantly affected by goodwill amortisation and exceptional non-cash items. Net Income pre-goodwill amortisation and exceptionals was € 696 million in 2002 (€ 809 million in 2001) and earnings per share pre-goodwill and exceptionals reached € 0.87 (2001: € 1.00). Net Income (€ -299 million) was negatively impacted by EADS merger related goodwill depreciation of € 936 million, including an extraordinary non-cash (and not tax deductible) depreciation of € 350 million resulting from impairment tests at the Space Division, following further deterioration of the space markets. On the other hand, the 2001 net profit of € 1,372 million had been affected by positive exceptional items mainly resulting from the creation of the integrated Airbus SAS.

2002 EBIT*: Contributors

In millions of euros	
Airbus	1,361
Aeronautics	261
HQ/Consolidation**	112
Defence and Civil Systems	40
(80) Military Transport Aircraft	
(268) Space	
(348)	TOTAL
	1,774
	1,426

* pre-goodwill and exceptionals

**including contribution of 46% stake in Dassault Aviation

Annual Results 2002 by Division

Turnaround in Defense and Civil Systems



A340-600

Airbus revenues were affected by lower deliveries (-8%) and weaker US\$ against €, partially offset by positive impact from favourable aircraft mix and price effect. Airbus delivered 303 aircraft in 2002, slightly ahead of its 300 target. The Airbus EBIT⁽²⁾ was € 1,361 million (2001: € 1,655 million) reflecting Airbus R&D cost increase by € 257 million to reach € 1,682 million, mainly due to the A380 programme and EBIT margin pre-R&D increased from 15% to 15.6%.

The order book of 1,505 aircraft at year-end 2002 was ahead of the competition for the third year. Major successes include the orders by FedEx for 10 A380F Freighters and by the UK low-cost carrier easyJet for 120 A319 aircraft. Overall in 2002, with a gross order intake of 300 aircraft (233 net orders), Airbus won a 54 % market share (both in terms of units and value).

The **Military Transport Aircraft** Division recorded lower revenues and an EBIT⁽²⁾ loss of € -80 million (2001: € +1 million). The Division's result was impacted by an already reported one time charge from its investment as a subcontractor of the Dornier 728 programme of insolvent Fairchild Dornier amounting to € -54 million, by the lost margin for this project and also by the delay of the € 17.7 billion A400M order (90% EADS share) which is now expected for spring 2003.

The **Aeronautics** Division recorded a solid revenues increase of 5%, mainly thanks to the success of Eurocopter. EBIT⁽²⁾ of the Division amounted to € 261 million (2001: € 308 million). Eurocopter and Military Aircraft were the main profit contributors. However, the commercial aviation downturn impacted the civil maintenance and aerostructure businesses of the Division. Major defence programmes, such as Tiger (military helicopters) and Eurofighter (combat aircraft) are now entering the delivery phase and will strongly contribute to future profitable growth.

In millions of euros

	EBIT	Change 2002/2001	Revenues	Change 2002/2001	Order book	Change 2002/2001
Airbus	1,361	-18%	19,512	-5%	140,996	-10%
Military Transport Aircraft	-80	—	524	-4%	633	-52%
Aeronautics	261	-15%	5,304	+5%	13,458	-2%
Space	-268	-21%	2,216	-9%	3,895	+3%
Defence & Civil Systems	40	—	3,306	-1%	10,110	+11%
Headquarters/Consolidation	112	—	-961	—	-753	—
Total	1,426	-16%	29,901	-3%	168,339	-8%

Order book based on gross prices



Tiger

Revenues of the **Space** Division decreased 9% (2001: € 2.439 millions) mainly due to the end of the Ariane 4 programme and the negative market impact in civil telecommunication satellites. The Division recorded a negative EBIT⁽²⁾ of € -268 million (2001: € -222 million), due to high provisions made in the context of further deterioration of the space markets, mainly for restructuring and investments depreciation, a satellite contract cancellation and losses on some programmes. The implementation of further restructuring at Space is now being facilitated by the full control of Astrium by EADS. The target is to achieve EBIT⁽²⁾ breakeven by 2004. Space Division strongly increased its order intake through the military launcher business and a telecom satellite contract with Spain.

The **Defence and Civil Systems** Division maintained revenues close to 2001 and realised a strong turnaround with EBIT⁽²⁾ of € 40 million (2001: € -79 million). Going forward, strong Revenues and EBIT⁽²⁾ growth is expected as main missile programmes such as Storm Shadow/Scalp EG and PAAMS/Aster are entering the delivery phase. Orders at the Defence and Civil Systems Division grew strongly thanks to the successes in missiles (Meteor and Taurus) and Defence Electronics.

2003 Outlook

For 2003, the EADS management is setting prudent financial targets that preserve the Company's flexibility to respond to market changes. In this uncertain environment, EADS will continue to favour profitability and cash control over market share gains.

EADS presently anticipates 2003 EBIT⁽²⁾ in the same range as 2002, based on 300 deliveries by Airbus - currently backed by a higher order book - and taking into account the increase in R&D spending to peak levels in 2003. The EADS 2003 EBIT target also includes a considerable provision for a significant re-engineering of the Space business in order to achieve profitability during 2004. The Space Division 2003 expected EBIT⁽²⁾ represents a further deterioration compared to 2002 due to ongoing restructuring and programme contingencies, and the first-time full consolidation of Astrium.

These negative effects are expected to be offset by the expected improved performance of the Divisions which are now ramping up defence programmes (Aeronautics, Defence and Civil Systems, and Military Transport Aircraft).

Based on the current exchange rate (1€ = 1.10\$ as of March 10, 2003), EADS expects to maintain 2003 revenues in the same range as 2002.

Free Cash Flow before customer financing is anticipated to remain positive in 2003, reflecting the continued ability to self-finance the A380 programme. EADS' budget for additional customer financing is lower in 2003 than last year's target, and EADS will continue with its restrictive practice of keeping net additions at the lowest possible level.

Q1 2003 results

Whilst, first quarter results reflect seasonal influences, EADS management confirms all 2003 targets, stated on March 10 during the annual press conference.

On 6 May 2003, EADS releases 2003 first quarter results and confirms its forecast for the 2003 business year. Due to seasonal effects, 1st quarter results cannot be extrapolated to give flavour of the full year results. The Company expects 2003 EBIT (Earnings before interest and taxes, pre-goodwill amortisation and exceptionals) in the same range as 2002, based on 300 deliveries by Airbus.

In millions of euros	Q1 2003	Q1 2002	Change
Revenues	5,520	6,408	-14%
EBIT ⁽²⁾	130	315	-59%
Net Income	-93	-25	-272%
Net Income pre-goodwill amortization and exceptionals	62	139	-55%
Earnings Per Share (EPS) pre-goodwill amortization and exceptionals (in €)	0.08	0.17	-55%
Order Intake	5,378	3,807	+41%
	31 March 2003	31 Dec 2002	Change
Order Book	162,718	168,339	-3%
Net Cash position	538	1,224	-56%
Number of employees	107,263	103,967	+3%

Order intake and order book based on gross prices

In the first quarter, the Company's **EBIT⁽²⁾** amounted to € 130 million. This reflects the impact of higher Research and Development (R&D) costs, as planned, particularly for the Airbus A380, and the number of Airbus deliveries in the first quarter that was, as expected, lower than in 2002 (65 deliveries compared to 72). The first quarter 2002 EBIT of € 315 million had also included a positive effect of € 63 million from the sale of Aircelle.

Revenues in the first three months of 2003 amounted to € 5.5 billion (first quarter 2002: € 6.4 billion), reflecting lower Airbus deliveries and a weaker US-Dollar.

EADS' defence and parapublic businesses, which are mainly part of the Aeronautics and Defence and Civil Systems Divisions, are subject to strong seasonal influences. Typically, revenues and earnings are significantly stronger in the second half of the year. At Airbus, the second and the fourth quarters of each year are usually the strongest.

From January 1st 2003, EADS consolidates in Space revenues 100% of Astrium. The cost of the planned Space restructuring estimated at about € 280 million will be accounted for in the following quarters.

EADS recorded **net income** pre-goodwill and exceptionals of € 62 million, compared to

€ 139 million, for the same period last year, reflecting the EBIT decrease which was partly offset by tax effects. As usual at EADS, net income was significantly affected by non-cash amortisation of goodwill, amounting to € 140 million in the first quarter.

EADS reported a positive **net cash position** of € 538 million at the end of March 2003 (€ 1,224 million on 31 December 2002). The net cash position figure was impacted by the seasonality effects in operations and the first-time 100% consolidation of Astrium.

EADS' **order intake** increased in the first three months of 2003 by 41% thanks to higher orders received by Airbus, which signed contracts for 42 aircraft (first quarter 2002: 18 a/c). The EADS order book remains the strongest in the global aerospace industry. This is expected to be further enhanced by recent commercial successes of Airbus in China and with the low cost carrier Jetblue for a total of 95 aircraft. Moreover, EADS management is now actively preparing the closing of A400M (€ 17.7 bn) and Paradigm (€ 3 bn) contracts.

At the end of March 2003, EADS had 107,263 **employees**, representing an increase of 3% compared to year-end 2002, due to the full consolidation of Astrium and the A380 ramp-up.

Third Annual General Meeting

On 6 May 2003, our third Annual General Meeting of shareholders was held in Amsterdam, where the registered office of the EADS Group is located.

Arnaud Lagardère, was elected Chairman of EADS as proposed by the Board, to replace Jean-Luc Lagardère, deceased in March. The two Chairmen of the Board of Directors, Manfred Bischoff and Arnaud Lagardère, first of all highlighted the achievements of 2002, as well as the strong resilience demonstrated by the Group in an exacting and unstable environment.

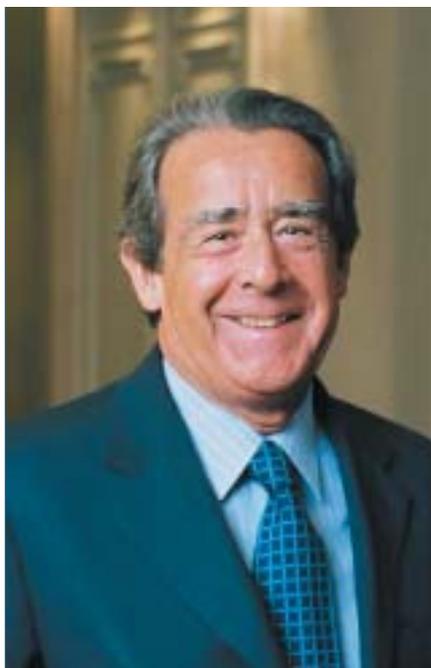
The two CEOs, Philippe Camus and Rainer Hertrich, then presented the details of the financial results for 2002, stressing notably that all of the targets were exceeded for the third year in a row. Then, Mr. Bischoff, Mr. Lagardère, Mr. Camus and Mr. Hertrich answered questions from shareholders, which related mainly to the Defence business of EADS and Space strategy.

The 10 resolutions were all approved: Appointment of Arnaud Lagardère as a member of the Board, Acceptance and approval of the Report of the Board of Directors; Adoption of the accounts for the financial year 2002; Approval of the result allocation, distribution and payment date; Release from liability of the members of the Board of Directors; Appointment of the auditors for the financial year 2003; Appointment of Hans Peter Ring as a member of the Board; Delegation to the Board of Directors of powers to issue shares and to set aside preferential subscription rights of existing shareholders; Renewal of the authorisation for the Board to repurchase shares of the Company and Amendment of the Company's Articles of Association.

The dividend of € 0.3 per share (gross amount) related to 2002 results will be paid to shareholders on 12 June 2003. This dividend amount is consistent with EADS dividend policy of paying out approximately 2% of its market capitalisation, based on an average 2002 share price of about € 14. It also reflects the utmost focus of EADS management at this time which is to maintain the highest standard of financial discipline.

Highlights

Tribute to Jean-Luc Lagardère



Jean-Luc Lagardère had devoted a great part of his life to the European Aerospace and Defence Industry. He had been passionately involved and was a driving force behind the creation of EADS, Airbus and the predecessor companies of Astrium and MBDA.

As Chairman of the Board of Directors, together with Manfred Bischoff, his unflinching devotion to the management of the Group's activities has been an invaluable contribution during these first defining years. Due to his charisma, his vision and his exceptional leadership qualities, he had brought together the dedication of the people of EADS to give Europe a market leader.

What is the EMTN programme ? Why did EADS issue a bond in February 2003?

EADS' funding policy aims at protecting its cash situation and maintaining its financial flexibility.

For the past two years, EADS had set on a course to diversify its sources of funding, using the full variety of financial instruments –its "financial toolbox". Thus, in addition to loans or credit facilities from banks and the EIB (European Investment Bank), EADS initiated, in February 2003, its first € 3 billion Euro Medium Term Note (EMTN) programme in order to improve access to capital markets and create name recognition for itself. An EMTN programme is a contractual framework which allows the company to raise debt from capital markets through successive issues of bonds governed by the same terms, bearing different maturities (from 1 month up to 30 years) and different rates.

Taking advantage of favourable market conditions, EADS launched an inaugural € 1 bn eurobond issue with a 7 years maturity and a competitively priced coupon of 4.625 %. The objectives of this first issue were to refinance existing debt and lengthen the maturity profile of the Company's debt while benefiting from attractive interest rates. This inaugural bond issue, while initially planned at € 750 million, was well oversubscribed and raised € 1 billion, pointing to strong investor interest in EADS' credit story and balance sheet strength. It is expected that the increased issue amount will encourage better liquidity and investor appetite.

Space Business : Challenges ahead

On January 31, 2003, EADS announced that it is acquiring BAE Systems' 25% stake in Astrium and taking full control of Paradigm Secure Communications Ltd. The transaction, which was closed on 7 May, is subject to EC approval, is meant to give EADS full control of Astrium for no cash consideration.

Moreover, through the full control of Paradigm Secure Communications Ltd, EADS is confirming its strong commitment to the Skynet 5 telecommunication satellite services programme which proposes secure military communications to the UK Ministry of Defence.

These steps are key in EADS effort to restructure its Space Division and to grow its space based defence and service business. This transaction gains EADS the strategic flexibility required to address current space market conditions and industry overcapacity. EADS management has thus cleared the path towards return to profitability and confirmed its determination to play a key role in the future consolidation of the Space sector.



The Space Division's management is now implementing a comprehensive restructuring programme, which triggers a reduction of about 1,700 people. This reduction is in addition to the previous year's plan affecting headcount of about 1,600, implementation of which will mostly take place in 2003. The all encompassing programme mandates drastic adaptations to market demand, overhead reductions, implementation of integrated centres of competence, industrial reorganisation and procurement savings.

With this drastic plan, EADS aims for EBIT breakeven by 2004, from the effects of this reengineering and based on growth from expected programmes like Paradigm and the European Galileo navigation project.

Owning EADS shares

Stock price evolution

(base 100 dated July 10, 2000)

EADS stock price (in euros)



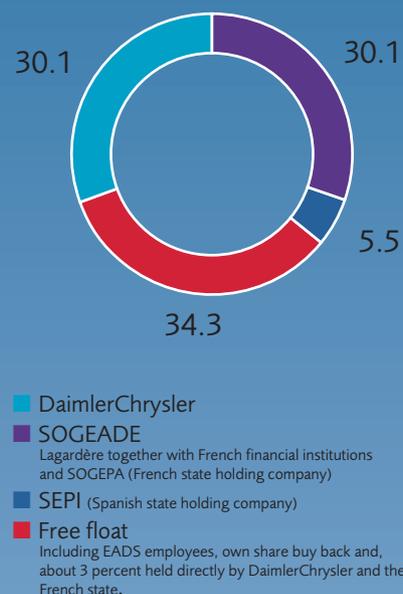
The economic downturn, heightened by the Iraqi situation, weighs down on the civil aviation industry, imparting more volatility to EADS' stock price more violently than to the overall market. However, EADS stock performance improved in the course of April reflecting the confirmation of 2003 targets by the Management and ongoing Airbus commercial success.

Euroclear code:	5730
Number of issued shares:	811,198,500
Own share buy-back (deprived from voting and economic rights)	10,241,252
Offer price on July 10, 2000:	19 euros for institutional investors 18 euros for retail investors
Closing price on May 16, 2003:	8.29 euros
Market capitalisation on Dec 31, 2002:	7,990 million of euros
High in 2003 on Paris Stock Market	11.70 euros on January 3
Low in 2003 on Paris Stock Market	6.33 euros on March 11
Dividend 2002	0.3 euro (gross amount)

Inclusion in the MDAX index

Following recent rule changes by Deutsche Börse AG (the German stock exchange) permitting foreign incorporated companies with significant activities in Germany, to be included in the major indices (with the exception of the DAX 30), EADS N.V. was included in the MDAX 50 index in February 2003. On the first day of trading under the new MDAX structure, March 24, 2003, EADS' weighting in the revised index was 9.4%, based on the March 21, 2003 closing price of EADS shares in Frankfurt of Euro 9.38 per share. EADS is one of the top two largest market capitalisations of the MDAX.

Capital structure as of December 31, 2002 (as %)



Shareholder diary

- May 22, 2003:**
Information Meeting, Paris
- June 12, 2003:**
Dividend payment
(€ 0.3 per share, gross amount)
- June 15-22, 2003:**
Paris Airshow, le Bourget
- July 28, 2003:**
First Half 2003 results release

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