

European Aeronautic Defence and Space Company EADS N.V.

aero-notes

Letter to EADS Shareholders



Dear shareholders,

Once again, EADS demonstrates its ability to live up to the commitments that we have made to you. During the first nine months of 2003 we have achieved our financial milestones; we have made strong steps towards balancing our portfolio through major defence sales; and we have made headway in our U.S. strategy.

Our most recent military successes, in the field, i.e. the Tiger in Spain, the NH-90 in Greece and the Eurofighter in Austria, add to our increasing order book in the defence sector, an area of growth that is less sensitive to economic cycles.

We are rapidly increasing our already strong presence in the U.S. market, where the group generates more than a third of its sales. Almost 2,000 people are directly employed by EADS North America.

Now, we have extended our industrial "footprint" in the U.S. even further. We have broken ground on a new Eurocopter plant in Mississippi which will provide helicopters to the U.S. homeland security and para-public markets. We anticipate other steps in the near future. Another demonstration of our intention to strengthen our presence was the convening of the Group Executive Committee in Washington, for the very first time. Finally, our American "citizenship" must also be reflected in our shareholding structure. As such, on October 7th of this year, we held our first North America Investor Forum in New York with key players in the American financial market, in line with our long term goal of extending our family of shareholders.

These efforts build upon our strong base in Europe, allowing us to globalize our positions in the worlds leading growth markets for aerospace. We are pleased that this strategy has been validated by the financial markets. At the same time, it is our hope that you will continue to accompany us throughout the next major stages in our growth as one of the world's leading performers in defence and aerospace.

Yours faithfully,
Philippe Camus and Rainer Hertrich
EADS CEOs



Q3 2003 results

EADS strengthens its position despite challenging market conditions

(Amounts in €)

EADS Group	01 - 09/2003	01 - 09/2002	Change
Revenues, in millions	18,536	19,996	-7%
EBITDA ⁽¹⁾ , in millions	1,877	2,134	-12%
EBIT ⁽²⁾ , in millions	784	1,013	-23%
Net Income, in millions	-124	23	—
Net Income pre-goodwill amortization and exceptionals, in millions	336	493	-32%
Earnings Per Share (EPS) pre-goodwill amortization and exceptionals	0.42	0.61	-31%
Order Intake ⁽³⁾ , in millions	49,453	22,341	+121%
Free Cash Flow before customer financing, in millions	-92	-204	+55%

1) Earnings before interest, taxes, depreciation, amortization and exceptionals

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

3) Order Intake based on catalogue prices

In the first nine months, EBIT amounted to € 784 million (January to September 2002: € 1,013 million). This reflects an increase in Research and Development (R&D) of about € 200 million, in line with the EADS plans.

All divisions but Airbus and Space enhanced their performance, mainly thanks to defence programmes. The EBIT improvement at the Aeronautics Division was particularly strong, driven by the Tiger and NH90 programmes. EBIT of EADS headquarters includes better results from the Dassault Aviation consolidation. EBIT before R&D remained stable at about € 2.3 billion, despite restructuring costs at the EADS Space Division totalling € 88 million booked in the first nine months, and slower Airbus deliveries (199 aircraft compared to 219 in the 9-months comparison).

Revenues from January to September 2003 amounted to € 18.5 billion (same period last year: € 20 billion).

Strong fourth quarter expected

Typically, revenues and earnings of the defence and parapublic businesses are strongest towards the end of each year. This pattern will also apply in the fourth

quarter of 2003. In addition to this, some Airbus deliveries have shifted into the fourth quarter, after delivery postponements due to the SARS disease and some delay in third-party documentation particularly on financing. Total deliveries for the full year remain solidly targeted at 300.

Order intake more than doubled

EADS' order intake more than doubled in the period January to September from € 22.3 billion in 2002 to € 49.5 billion in 2003. Almost half of these orders originate from the defence business, including the A400M military transport aircraft programme and Military Aircraft. Higher orders received by Airbus and MBDA also contributed to growth in order intake. At the end of September, the EADS order book amounted to a total of € 186.7 billion.

Positive Net Cash position maintained

EADS maintained a positive Net Cash position at € 359 million, despite the peak of A380 R&D costs and still high capital expenditure as well as the lower level of Airbus deliveries in the third quarter.

EADS continued its policy of very restrictive customer financing, with about € 500

million of net additions in the first nine months of 2003 – lower than expected.

EADS recorded Net Income pre-goodwill amortization and exceptionals of € 336 million, or € 0.42 per share, for the first three quarters of 2003.

As usual at EADS since its foundation, Net Income was significantly affected by non-cash amortization of goodwill, amounting to € 422 million during the first nine months. This goodwill was created mainly through the EADS merger and the Airbus integration. Net Income after goodwill and exceptionals stood at € -124 million.

Continuing hedging at favourable exchange rates

During the third quarter, EADS hedged the majority of its order intake at exchange rates of about € 1 = \$ 1.11, which is more favourable than the budget rate assumptions for these orders. Hedging allows the company to counter the effects of strong exchange rate fluctuations. Gross additions amounted to over € 7 billion in the third quarter.

At the end of September 2003, EADS had a hedging portfolio of about € 45 billion of future revenues hedged at an average exchange rate of € 1 = \$ 0.98, which is much more favourable than the current spot rates.

Full-year outlook

Looking forward to an expected strong performance in the fourth quarter, EADS is able to confirm all full-year targets. It anticipates 2003 EBIT (Earnings before interest and taxes, pre-goodwill amortization and exceptionals) in the same range as 2002, at approximately € 1.4 billion, full-year revenues in a similar range as last year, and positive Free Cash Flow before customer financing outlays.

Results by division

The new business structure contributes substantially to the success of EADS

(Amounts in millions of €)

	EBIT ⁽¹⁾			Revenues		
	01 - 09 2003	01 - 09 2002	Change	01 - 09 2003	01 - 09 2002	Change
Airbus	701	1,072	-35%	12,051	13,750	-12%
Military Transport Aircraft	-7	-79	+91%	410	310	+32%
Aeronautics ⁽²⁾	112	84	+33%	2,452	2,440	+0%
Space ⁽³⁾	-184	-101	-82%	1,473	1,389	+6%
Defence and Security Systems ⁽²⁾	-18	-42	+57%	2,957	2,793	+6%
Headquarters Consolidation	180	79	—	-807	-686	—
Total	784	1,013	-23%	18,536	19,996	-7%

1) Earnings before interest and taxes, pre-goodwill amortization and exceptionals

2) 2002 figures are pro-forma according to the new structure of Aeronautics and Defence and Security Systems

3) 9 months 2003 include EADS Astrium at 100% (9 months 2002 at 75%)



The **Airbus** Division recorded revenues of € 12.1 billion in the first nine months of 2003 (same period 2002: € 13.8 billion). EBIT amounted to € 701 million (January to September 2002: € 1,072 million), impacted by higher R&D and slower deliveries, which were partially offset by a more favourable aircraft mix and improved profitability. Order intake at Airbus more than doubled in the first nine months from € 15.4 billion in 2002 to € 37 billion this year, including the 69.4 percent workshare for the A400M programme.



Revenues at the **Military Transport Aircraft** Division increased from € 310 million to € 410 million in the nine-months comparison. EBIT amounted to € -7 million (January to September 2002: € -79 million,

including a charge of € 54 million for the Fairchild Dornier insolvency). Thanks to the A400M contract, the order book grew to € 20.4 billion.



Revenues of the **Aeronautics** Division, now excluding the Military Aircraft business according to the new structure, remained steady at € 2.5 billion in the first nine months of 2003. EBIT rose by one third to reach € 112 million, reflecting particularly the growth in Eurocopter's defence programmes. At € 9.7 billion at the end of September 2003, the order book remained almost on the same level as at the end of 2002.



The **Space** Division, now including EADS Astrium at 100 percent, increased revenues to € 1.5 billion from January to September 2003 (same period last year: € 1.4 billion).

Due to the restructuring costs and contract provisions, EBIT was negative at € -184 million (January to September 2002: € -101 million).

EADS confirms its expectation of EBIT breakeven for the Space Division in 2004. The order book amounts to € 4.2 billion.



Revenues for the **Defence and Security Systems** Division, now including Military Aircraft, grew to € 3 billion (first nine months 2002 pro forma: € 2.8 billion).

Due to the seasonality of the defence business, EBIT amounted to only € -18 million (first nine months 2002: € -42 million). However, in the third quarter alone, EBIT was positive, and is expected to be above the 2002 result for the full year 2003.

At € 13.5 billion, the order book remained on the level of the year-end 2002.

Highlights

An American point of view

With more than €10 billions of revenues every year, the U.S. currently represents a little more than a third of EADS total revenues. This contribution is primarily a result of the strong position of Airbus: a total of more than 2,000 Airbus planes have to date been ordered by North American airlines. EADS also contributes more than \$6 billion annually to the U.S. economy through its networks of suppliers and services which provide 120,000 jobs across the United States.

Now, the company is poised to experience additional growth in the U.S. defence, Homeland Security and parapublic markets. Eurocopter, for example, is a key element of the North American footprint of EADS: today, more than 1,300 helicopters are used by several U.S. governmental agencies such as the U.S. Coast Guard.

Building on its strong position in the civil and parapublic markets, EADS has also been working actively to expand its efforts in the North American defence markets. One successful strategy of penetrating in this key market has been the development of strategic partnerships and programs with U.S. prime contractors.

One such success story for EADS is its participation with Lockheed Martin and Northrop Grumman in the Deepwater Program – a comprehensive equipment replacement program for the U.S. Coast Guard. The U.S. Coast Guard chose the CN-235 manufactured by EADS-CASA in Spain as the maritime patrol aircraft platform – a clear sign that U.S. parapublic and defence customers value EADS product leadership and innovation.

Looking toward the future, EADS will be offering market military derivatives of its commercial aircraft to the Pentagon in areas such as Tankers,

Multi-mission aircraft, and stand-off strike capabilities.

EADS is also actively pursuing the market for secure telecommunications products and services for defence and homeland security missions.



Chris Emerson, CFO EADS North America

US investors see EADS as a true alternative to Boeing. They appreciate the increasing balance between the commercial and defence sides of EADS. Beyond this, they are especially excited about the entire product palette Airbus is offering but some still question the A380 program. This is understandable given their home market: the US "hub and spoke" travel infrastructure is very conducive to single aisle and regional jet domination.

Many investors have commented that they were very pleased with the integrity of information flow from EADS management. The fact that our guidance is accurate only solidifies their comfort with us. The investment community has recognized the appeal of our story, by increasing its EADS holdings.

Investors bet on long term

Under its EMTN program (see Aero-notes n. 7) and to optimize the maturity profile of its debt, EADS launched in September its second bond issue of the year. After a billion euro issue last

February, the company raised an additional 500 millions through an Eurobond carrying a 5,5 % coupon for a term on September 25th, 2018. The success of this obligation with an exceptional fifteen years maturity reflects the confidence of investors in EADS financial strength. The rating agencies underline this solidity: S&P and Moody's rated the EADS senior long term debt with a quality note (single A and A3).

EADS, telecom operator for UK MoD

On October 24th, EADS signed with the UK Ministry of Defence (MoD) the Skynet-5 contract. For £ 2.5 bn (€ 3.6 bn), it will provide secure military communications services over the next 15 years for the British Army.

This program is awarded to EADS subsidiary Paradigm, which will operate the two new Skynet 5 satellites: Paradigm will contract with EADS Astrium for the manufacture and the launch of these.

This contract reflects the added value of EADS as major systems integrator.

By supplying the whole system and by organizing the financing, EADS allows the MoD to adapt its payment scheduled to its budgetary constraints. EADS remains the owner of the equipment and can market the communication capacities not contractually used by the MoD. Hence, the global amount of the contract could exceed the initial € 3.6 bn.



Highlights

Gigantic test for flagship of the 21st century

At the beginning of November wood and aluminum models of the A380 wing and fuselage took to the road especially modified to accommodate the transport of various components of A380 to the assembly site in Toulouse.

This real-size test was meant to ensure this road can bear the gigantic dimensions of 50 meters long, 8 meters wide and 13 meters high convoys.

A spectacular simulation for a very real project: the A380 industrial process is underway since January, 2002. Bit by bit this gigantic puzzle takes shape.

Among the most impressive elements already produced by Airbus factories: the nose and the wings.

All components: English wings, Spanish empennage, French and German sections and French nose will be assembled from next April in the new Jean-Luc Lagardère hall in Toulouse-Blagnac.

A half-dozen aircraft will be ready for trial flights in 2005. The first deliveries are due in 2006.

A380 in figures

Span : 79,2 m

Length: 73 m

Height: 80 ft (24.1 m)

Capacity: 555 passengers
or 150 t (freighter)

Range: 8000 nm

List price: between \$263 and 286 m

Backlog: 129 orders and firm commitments



Three sets of tests will take place before the first actual deliveries in April 2004.



At 36.3m long, the wings produced in Broughton in UK are the largest-ever designed and built for a commercial aircraft.



Méaulte plant in France produces the A380 particularly impressive nose section. The first delivery was on November, 23.



The first fuselage section of the A380 came out from Airbus plant in Hamburg on October, 10.

Your EADS shares

Stock price evolution

(base 100 dated July 10, 2000)



Recent stock performance

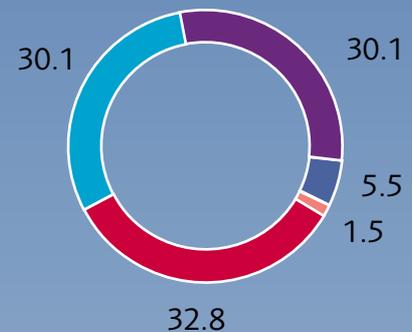
Riding a wave of commercial successes, EADS shares rose strongly in October. The announcement of the Q3 results on November 6th and the confirmation of the 2003 guidance satisfied investors. Some major analysts revised their target price upwards, and two of them envisage a potential price of more than 40 € at the top of the cycle. By December 4th, the share price had reached its peak since September, 2001, and despite subsequent consolidation and volatility through the past month (dollar weakness, terrorist attacks and CAC40 reweighing anticipation), the EADS share now exceeds its IPO price. Since the beginning of 2003, EADS has been one of the three best performers of the Paris Stock Index. Over the last three years, EADS stocks overperformed the CAC 40 by over 100%.

CAC40 reweighing

The CAC40 reweighing, on November 28th, brought no surprise. EADS' stock, whose weight in the index has decreased from 2% to 0.88% due to its low free float, experienced unusual trading volumes: 19.8 m shares changed hands - about 10 times normal daily volume - and the price was up 0.55% at closing, while the CAC40 was down 0.20%. Numerous investors had positioned themselves to take advantage of the massive sales expected from index tracking funds, thus supporting the share price. Many market players had speculated - wrongly - on a collapse of the EADS stock price, but at the end of the day, they created more upwards momentum when they had to cover their shorts at the closing auction.

ISIN Code:	NL0000235190
Number of issued shares:	812,885,182
Offer price on July 10, 2000:	19 € for institutional investors 18 € for retail investors
High in 2003 on Paris Stock Market	20.20 € on December 4
Low in 2003 on Paris Stock Market	6.33 € on March 11
Dividend 2002	0.3 € (gross amount)

Capital structure as of December 5, 2003 (as %)



- DaimlerChrysler
- SOGEADE
Lagardère and SOGÉPA
(French state holding company)
- SEPI
(Spanish state holding company)
- Institutional, retail and employee ownership
+ shares held out of the contractual partnership by DaimlerChrysler and French State.
- Treasury Shares
(Shares without economic or voting rights).

Shareholder diary

March 8th, 2004:
Annual Results

Shareholders Information

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