



aero-notes

Letter to our shareholders



Dear shareholders,

While 2004 is well underway, the release of our 2003 annual results provides an opportunity to look back on the past year. Justifiably, we are proud of our achievements, and we hope you will be as well. In the short history of EADS, 2003 was a special year: Unfavourable economic conditions prevailed, the war in Iraq and the SARS outbreak pushing the advent of a recovery back, yet EADS rose to the challenge and emerged from these headwinds a stronger company.

EADS stands as a model of a successful transnational company. This success was driven in part by Airbus, the global number one in commercial aviation, but also by EADS' gains in Defence markets, and by the laying of sounder ground rules for the European space industry. The launch of the A400M programme in May 2003 was a turning point: the contract signed by OCCAR on behalf of seven countries is historically significant, because of its sheer size: at € 20 billion, an absolute record for EADS. Combined with successes of Eurofighter, Eurocopter and MBDA, it situates EADS as a leading Defence company leveraging a wide range of commercial and military capabilities. Each of these is a major stepping-stone in the strategic rebalancing of our businesses towards less cyclical markets. In short, while still a young company, EADS' credibility as a global player is firmly established.

Our robust share price performance reflects that credibility, which we also earned by repeatedly meeting our financial objectives for the last three and a half years. 2003 was a year in which we exceeded our promises, particularly with regards to free cash flow, highlighting this company's ability to generate value, even in damaging circumstances. Our relentless investments, whether in innovation in the pursuit of excellence, or in restructuring under the pressure of necessity, are beginning to pay-off: Most of our divisions showed improvements – which is even true of Space once the restructuring charges are stripped-out. These developments, coupled with the improved economic climate, position EADS for a better-balanced and richer harvest.

We have built momentum and are taking to the air!

Philippe Camus and Rainer Hertrich
CEOs

Summary

- P2:** EADS surpasses 2003 profit target: EBIT* of EUR 1.54 billion
- P3:** Divisions: Strong contributions from Defence businesses
- P4:** A400M: a key product to support the rebalancing of EADS's portfolio towards of Defence
- PFI:** When EADS provides services
- P5:** Air tanker: EADS bets on the boom
- P6:** Your EADS shares



2003 Annual results

2003 profit target surpassed

EADS has now achieved commercial aviation leadership and reached a top position in the global defence market. Despite the difficult market environment in 2003, EADS has again beaten expectations.

At € 1.54 billion, EADS achieved an EBIT* up eight percent from 2002, well above the target of about € 1.4 billion thanks to strong growth in its defence businesses and better than expected performance at Airbus. The EBIT* improvement benefited from a strong contribution from Military Aircraft and MBDA, the turnaround of the Military Transport Aircraft Division and the increased profitability of Eurocopter. The Space Division recorded a negative EBIT* of € -400 million, after a restructuring charge of € 288 million. EBIT* also includes a higher contribution from the 46.03 percent shareholding in Dassault Aviation.

EADS Research and Development (R&D) expenditure increased to € 2.2 billion in 2003 (2002: € 2.1 billion). Half of this was spent on R&D for the A380, due for first deliveries in 2006.

At constant US-Dollar exchange rates, EADS Group revenues would have even increased by 6 percent. Growth was mainly driven by an 18 percent rise at the defence businesses, with combined revenues rising across all defence segments from € 6 billion to € 7.1 billion.

Order intake doubled

The EADS order intake doubled in 2003 to reach € 61.2 billion (end of 2002: € 31.0 billion), twice as high as revenues. The biggest successes were achieved at Airbus with net orders of 254 aircraft, including 34 A380, and in defence with major contracts such as the Skynet 5 military satellite communications system for £ 2.5 billion, the € 19.7 billion A400M order, and a major missile contract for 1,400 Aster missiles.

The EADS order book increased to € 179.3 billion (2002: € 168.3 billion). At constant exchange rates, the increase would have been about 20 percent. The defence order book doubled to about € 46 billion.

Strong increase in Cash

Free Cash Flow before Customer Financing was boosted from € 0.6 billion to € 2.1 billion thanks to better operating cash-flow and working capital reductions. Commercial aviation Customer Financing cash outlay remained under control at € 1.1 billion, despite the challenging situation of airlines (2002: € 0.9 billion).

At the end of 2003, the Net Cash position increased to € 3.1 billion, up from € 2.4 billion on a comparable basis.

Net Income of € 152 million

EADS achieved a positive Net Income in 2003 of € 152 million (2002: € -299 million). Thanks to better EBIT*, Net Income pre-goodwill amortization and exceptionals is up 10 percent to € 769 million (2002: € 696 million), or € 0.96 per share (2002: € 0.87).

Dividend proposal of € 0.40 per share

The EADS Board of Directors is recommending to the Annual General Meeting of shareholders the implementation of an increased dividend of € 0.40 per share for 2003 (for 2002: € 0.30 per share).

Outlook

EADS is now at a turning point indicating stronger growth over the medium term, as the expected 2005 commercial aviation market upswing is within reach. The ramp-up of major defence programmes, such as Tiger and NH90 helicopters and missiles, and the turnaround of the Space Division provide the basis for operating results growth in 2004. For the Defence and Security Systems Division, which has been created in 2003, the current year will be characterised by the implementation of streamlining and efficiency improvement programmes with some associated costs and investments.

In 2004, EADS expects an EBIT* around € 1.8 billion and revenues to remain stable, assuming an exchange rate of € 1 = \$ 1.20. Airbus expects close to 300 aircraft deliveries in 2004. Regarding commercial activity, EADS expects to maintain a level of order intake above the level of revenues.

* 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 formation of Airbus S.A.S. and the formation of MBDA, and impairment losses.

EADS – Figures 2003 (Amounts in Euros)

EADS Group	2003	2002	Change
Revenues, in millions	30,133	29,901	+1%
there of Defence, in billions	7.1	6.0	+18%
EBITDA ⁽¹⁾ , in millions	3,137	3,031	+3%
EBIT*, in millions	1,543	1,426	+8%
Research and Development costs, in millions	2,189	2,096	+4%
Net Income, in millions	152	- 299	-
Net Income pre-goodwill amortization and exceptionals, in millions	769	696	+10%
Free Cash Flow before Customer Financing, in millions	2,143	578	+271%
Net Cash position, in millions	3,105	2,370	+31%
Order Intake, in millions	61,150	31,009	+97%
Order Book, in millions	179,280	168,339	+6%
Employees (at year-end)	109,135	103,967	+5%

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



Annual results 2003 by division

Strong contributions from Defence businesses

■ **Airbus** has become the world's largest commercial aircraft producer. In 2003, Airbus delivered 305 (2002: 303) aircraft,



slightly above the target of 300 and ahead of its competitor, and received 254 net orders (233 in 2002), representing a 52 % market share. The Airbus Division EBIT* was stable at € 1,353 million (2002: € 1,361 million). This was achieved mainly thanks to a better aircraft model mix but was offset by the € 137 million R&D cost increase to reach a total of € 1,819 million R&D cost. Revenues slightly decreased by 2 percent to € 19,048 million, but would have been significantly higher at constant US-Dollar rates. At the end of 2003, the Airbus order book stood at 1,454 commercial aircraft (end of 2002: 1,505).

■ The **Military Transport Aircraft** Division recorded an EBIT* of € 30 million. 2002 EBIT*: (€ - 80 million) had been



affected by customers bankruptcy. The 78 % increase in revenues to € 934 million is driven by the A400M Programm. The Airbus Military Company, conducting the A400M programme, is fully consolidated in the Military Transport Aircraft Division. Therefore, the full impact of the A400M programme € 19,7 billion in terms of order intake and revenues is reflected in this Division. All other parts of EADS contributing to the programme are considered as internal subcontractors.

■ EBIT* of the **Aeronautics** division increased 21 percent to reach € 217 million (2002: € 180 million), mainly following a further improved performance at Eurocopter. At € 3,803 million (2002: € 3,834 million), revenues remained on the same level as the year before. At the end of 2003, the Aeronautics order book amounted to € 9,818 million (2002: € 10,162 million). With 293 new helicopters ordered, Eurocopter once again confirmed its world market leadership with 45 percent of the market of new civil and military helicopter units.



■ The **Space** Division's EBIT* of € -400 million – including 100 percent of EADS Astrium - (2002: € -268 million; 2003 comparable EBIT* figure with 75 percent of EADS Astrium: € -319 million) was impacted by restructuring charges of € 288 million,



as planned. However, without the restructuring charges and the negative consolidation effect, the operational performance of Space improved compared to 2002. Revenues amounted to € 2,424 million (2002: € 2,216 million, comparable figure with 100 percent of EADS Astrium: € 2,617 million). Following some important commercial successes such as Skynet 5, the order book of EADS Space more than doubled to € 7,888 million (2002: € 3,895 million), with Skynet 5 representing the largest order.

■ The new **Defence and Security Systems** Division strongly improved its EBIT* by 40 percent to € 171 million (2002: € 122 million). Revenues grew by 8 percent to € 5,165 million (2002: € 4,770 million). Growth in revenues and EBIT is being driven by the ramp-up of the Military Aircraft business and missile programmes. The Division's order book also increased to € 14,283 million (2002: € 13,406 million).



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by division (Amounts in millions of Euro)	EBIT(*)			Revenues		
	2003	2002	Change	2003	2002	Change
Airbus	1,353	1,361	-1%	19,048	19,512	-2%
Military Transport Aircraft	30	-80	+138%	934	524	+78%
Aeronautics ⁽¹⁾	217	180	+21%	3,803	3,834	-1%
Space ⁽²⁾	-400	-268	-49%	2,424	2,216	+9%
Defence and Security Systems ⁽¹⁾	171	122	+40%	5,165	4,770	+8%
Headquarters Consolidation ⁽³⁾	172	111	-	-1,241	- 955	-
Total	1,543	1,426	+8%	30,133	29,901	+1%

1) 2002 figures are pro-forma according to the new structure of Aeronautics and Defence and Security Systems

2) Full year 2003 includes EADS Astrium at 100% (Full year 2002 at 75%)

3) At EADS Headquarters, EBIT* includes a higher contribution from the 46.03 percent shareholding in Dassault Aviation. Part of this is due to the "catch up" impact of the IAS restatement of the 2002 Dassault Aviation contribution.



■ *Propelling EADS towards defence export successes* ■

One of EADS's major strategic directions is to re-balance its portfolio in favour of Defence, which is less sensitive to economic cycles and offers synergies leverage with the civil sector. This objective should translate into military sales of approximately 10 billion Euro by 2005/2006, which is an increase of more than 50% over 2002. The Group is well on its way to achieving this goal. Now at the midpoint, EADS can be proud of several key successes in 2003, such as the military satellite communications system Skynet 5, the military transport aircraft A400M programme launch, the Aster missile contract concluded by MBDA and crucial export orders of the Eurofighter combat aircraft, as well as Tiger and NH90 helicopters. Through successes like these, military order-book doubled in 2003 to reach 46 billion Euro, placing the Group second in the world amongst Defence manufacturers order-book wise in 2003. Above all, the 46 billion Euro will serve to multiply the effects of the recovery in the commercial aviation sector, propelling EADS towards the 40 billion-Euro turnover mark.

Our military portfolio includes new products that we believe will perform especially well in new markets outside Europe. To be noted in particular are the latest generation Aster missiles, the NH90 transport helicopter (325 orders and 85 options), the A330 tanker aircraft (see article on p. 6) and of course, the A400 military transport aircraft. These products are already solidly established in the European market, which



A400M

is proof of their innovative qualities. These EADS products offer cutting-edge performance, especially when compared to their

competitors at reduced operating costs. The A400M, for example, promises considerable export opportunities. The current transport aircraft fleet of slightly more than 2,000 aircraft consists primarily of US Lockheed C-130s. This aircraft is based on an old design (40 years since its first flight), and its progressive replacement is expected to begin in the next decade. Taking into account the fact that one A400M aircraft has approximately double the transport capacity of the C-130, EADS estimates total market at approximately 650 aircraft (excluding the United States, CIS and China). Of these 650 aircraft, EADS has already secured 180 orders, valued at 20 billion Euro. The potential export market is therefore worth approximately three times that amount. EADS aims to sell approximately 200 aircraft in this market thanks to, among other advantages, the operating capabilities of the A400M, which can carry 30 t over 4500 km at a high cruising speed up to 780 km/h using the same innovative technologies that made the success of Airbus.

■ *Public-Private Partnership opens a window for EADS* ■



Skynet 5

How can a government modernize and develop its military equipment without increasing public spending? The Private Finance Initiative (PFI) could be the answer. In concrete terms, the PFI is a financial arrangement whereby, on the basis of a risk sharing plan, the State grants a

contract to a private operator for the construction, delivery, operation and/or maintenance of an asset. In exchange, and herein lies the difference with a loan, the State pays the operator a minimum guaranteed payment for the contract's duration. For the State, an arrangement of this kind increases available capital by stretching payments over time. Additionally, this arrangement offers a better service/price ratio since the private project manager bases the cost estimate not on technical specifications, but on actual services to be provided. Initially used to finance civilian infrastructures, the PFI is now being extended to military circles, where governments can use it to manage budgetary constraints, while outsourcing more services to private-sector professionals. The United Kingdom is a pioneer in this field, with more than £12 billion in Defense investments financed in this manner.

EADS has adapted to the needs of this major customer by proposing innovative PFI-type solutions, including one that defeated the competition as part of the successful Skynet 5 (secure telecommunications) contract in 2003, and in the ongoing negotiations for the FSTA (tanker aircraft) project. The Group can use its financial skills to support the synergies between the civilian and military domains, and to tailor solutions with controlled risk. Indeed, this type of financing presupposes a balanced distribution of the risks between the manufacturer and the operator, the customer and the financiers. The dual civilian and military expertise of EADS could also facilitate the marketing of services to third parties in order to get savings for the customer and profit for the operator.



Booming opportunities: tankers will fuel defence growth

The projection capability of an airforce lays on its ability to refuel aircraft in the air. The worldwide market is estimated to be around 550 tanker aircraft, 80% of which are for the United States and has been monopolized by Boeing up to now. EADS made a strategic breakthrough last January with the selection of the Air Tanker project by the British Ministry of Defence. This success lends credibility to EADS's ability to penetrate US market and underscores the excellence of the solution put forward by EADS. This excellence is built on an A330 derivative, a low-risk and cost-effective platform that also offers a greater supply capacity than any competing solution. EADS added value is not limited to the aircraft itself. EADS innovated in order to offer the best



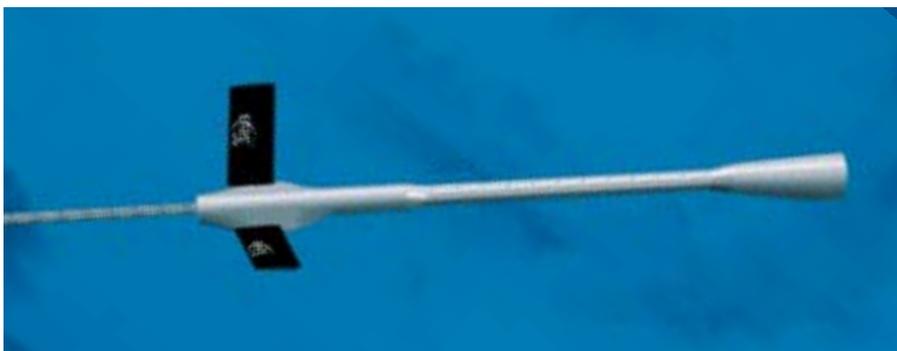
With its huge basic fuel capacity, the A330-200 provides superior air-to-air refuelling performance

possible refuelling solution. The Group is investing more than € 80 million of company funding in developing technology and supply systems, with particular emphasis on the "boom". With the current system, the receiving aircraft plugs a probe into the coupling to tank up, requiring some precise flying skills on the part of the pilot. The idea behind all of the work of the EADS Casa research and design centre, which runs the project for the Group, was to design a boom that would reach out to the "thirsty" aircraft. This way, the pilot avoids a stressful manoeuvres and can focus on his mission only. For this purpose, EADS employed several cutting-edge electronic systems: fly-by-wire controls, a 3-dimensional viewing system, video systems, etc. All of these innovations aim to

make the task of the boom operator easier, to ensure a refuelling performance that is two to four times better than the competition. Almost four tons (4800 litres) of fuel per minute, a considerable advantage since an aircraft is very vulnerable during the refuelling procedure. Thanks to this innovative boom, EADS can also target the modernization of existing tanker aircraft fleets.

Wide range of Tanker aircrafts

With the delivery of the first A310 Multi Role Tanker Transport (MRTT) to the German air forces on 9 December 2003, EADS is now "physically" present in the in-flight refuelling market. This aircraft, developed on the basis of the A310 MRT, is the first in a series of six that have already been ordered, four for Germany and two for Canada. The A310 MRTT is the first aircraft to go into service from the EADS range of tanker aircraft. This wide product range, which includes the A330-200 and the A400M, meets all variety of needs.



The flying boom refuelling system is a long duct deployed from the rear of the tanker

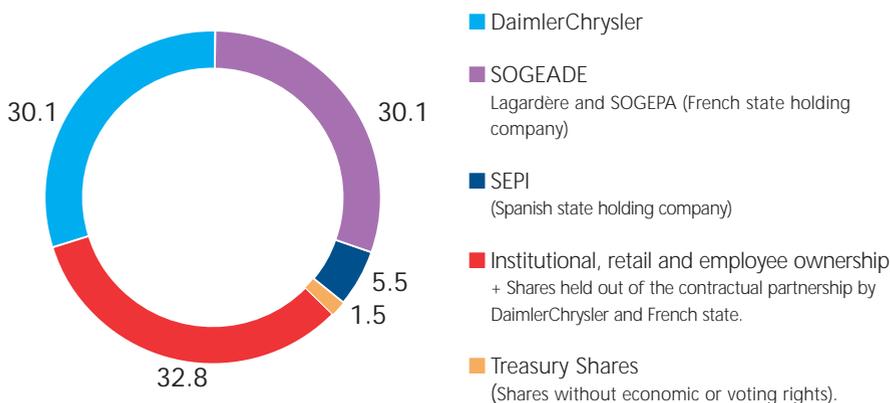


■ Stock price evolution



- Boeing (Stock price converted in euro using daily dollar spot closing)
- CAC 40
- EADS

■ Capital structure as of December 31, 2003 (as %)



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
Earnings per share (EPS) 2003 (pre-goodwill amortization and exceptionals)	0.96 €
Dividend per share 2003*	0.40 €
Dividend per share 2002	0.3 € (gross amount)

* to be proposed to AGM on 6 May, 2004

At the beginning of 2004, the dollar's weakness prompted some EADS investors to take profit following the quasi-doubling of EADS' stock in 2003. Then EADS' stock price held steady between 17 € and 18 € under the effect of two opposing forces: the sellers worrying about further weakness of the dollar and delay in the market upturn, and the buyers convinced by the profitability growth potential of the Group. By February 26th, the stock price had begun to rise again. Investors anticipated better than expected 2003 annual results, following BAE Systems' results announcement, which suggested a strong Airbus performance. Until March 5th, the stock price had risen 9 %, outperforming the CAC (2 %). EADS' FY 2003 results presentation on March 8th had no major impact on the share price, as markets were at the same time positively surprised by 2003 results and more cautious about 2004 outlook. The general trend on financial markets was rather bear, when the March 11 Madrid terrorist attacks precipitated all markets down with a special hurt for the shares that had over-performed the market over the last months. From March 11 to March 19, EADS shares dropped over 7% (vs. - 4% of the CAC40). Concerns about timing of the market recovery and US\$ volatility are once again becoming key drivers of investors behavior.

■ Shareholders diary

- Annual General Meeting**
6 May 2004, Amsterdam, The Netherlands
- First Quarter 2004 results release**
12 May 2004
- Information Meeting**
27 May 2004, Paris, France

Shareholders Information

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