

First Three Quarters 2003 Report

Condensed Interim Consolidated Financial Statements of EADS N.V. for the first three quarters of 2003

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Consolidated Income Statements

	January 1 - September 30, 2003		January 1 - September 30, 2002		Deviation	
	M €	%	M €	%	M €	%
Revenues	18.536	100	19.996	100	-1.460	-7
Cost of sales	-14.940	-81	-16.297	-82	1.357	-8
Gross margin	3.596	19	3.699	18	-103	-3
Selling, administrative & other expenses	-1.704	-9	-1.749	-8	45	-3
Research and development expenses	-1.561	-9	-1.356	-7	-205	15
Other income	145	1	205	1	-60	-29
Amortization of goodwill	-422	-2	-431	-2	9	-2
Income before financial result, income taxes and minority interest	54	0	368	2	-314	-85
Financial result	17	0	-6	0		
Income taxes	-208	-1	-323	-2	115	-36
Minority interest	13	0	-16	0		
Net income (loss)	-124	-1	23	0	-147	-639
	€		€		€	
Earnings per share						
Basic	-0,15		0,03		-0,18	
Diluted	-0,15		0,03		-0,18	

Consolidated Income Statements for the third Quarter 2003 and 2002

	July 1 - September 30, 2003		July 1 - September 30, 2002		Deviation	
	M €	%	M €	%	M €	%
Revenues	5.476	100	6.022	100	-546	-9
Cost of sales	-4.527	-83	-4.913	-82	386	-8
Gross margin	949	17	1.109	18	-160	-14
Selling, administrative & other expenses	-473	-9	-519	-9	46	-9
Research and development expenses	-485	-9	-480	-8	-5	1
Other income	66	1	60	1	6	10
Amortization of goodwill	-141	-2	-135	-2	-6	4
Income before financial result, income taxes and minority interest	-84	-2	35	0	-119	-340
Financial result	71	2	-20	0	91	-455
Income taxes	-57	-1	-94	-1	37	-39
Minority interest	12	0	11	0	1	9
Net loss	-58	-1	-68	-1	10	-15
	€		€		€	
Earnings per share						
Basic	-0,07		-0,08		0,01	
Diluted	-0,07		-0,08		0,01	

Consolidated Balance Sheets

	September 30, 2003		December 31, 2002		Deviation	
	M €	%	M €	%	M €	%
Fixed assets						
Intangible assets	9.638	18	9.789	21	-151	-2
Property, Plant and Equipment	10.750	21	10.509	22	241	2
Financial Assets	4.957	10	4.875	10	82	2
	25.345	49	25.173	53	172	1
Current assets						
Inventories	3.850	8	2.700	6	1.150	43
Trade receivables	3.799	7	4.114	9	-315	-8
Other receivables and other assets	8.215	16	5.256	11	2.959	56
Securities	4.627	9	4.497	9	130	3
Cash and cash equivalents	1.673	4	1.703	4	-30	-2
	22.164	44	18.270	39	3.894	21
Deferred tax assets	2.821	5	2.992	6	-171	-6
Prepaid expenses	994	2	965	2	29	3
Total assets	51.324	100	47.400	100	3.924	8
Shareholders' equity						
Capital Stock	811	2	811	2	0	0
Reserves	9.294	18	9.658	20	-364	-4
Accumulated other comprehensive income	4.587	8	2.452	5	2.135	87
Treasury shares	-156	0	-156	0	0	0
	14.536	28	12.765	27	1.771	14
Minority interests	1.781	3	1.361	3	420	31
Provisions	8.284	16	8.248	17	36	0
Liabilities						
Financial liabilities	5.941	12	4.976	10	965	19
Trade liabilities	4.955	10	5.070	11	-115	-2
Other liabilities	10.269	20	10.246	22	23	0
	21.165	42	20.292	43	873	4
Deferred tax liabilities	3.087	6	2.014	4	1.073	53
Deferred income	2.471	5	2.720	6	-249	-9
Total liabilities and shareholders' equity	51.324	100	47.400	100	3.924	8

Consolidated Cash Flow Statements

	January 1 - September 30, 2003	January 1 - September 30, 2002
	M €	M €
Net income (loss)	-124	23
Result applicable to minority interest	-13	16
Depreciation and amortization of fixed assets	1.675	1.715
Valuation adjustments	102	20
Change in deferred taxes	-3	191
Results on disposals of fixed assets/businesses	-20	-68
Results of companies accounted for by the equity method	-156	-83
Change in provisions	-362	-607
Change in other operating assets and liabilities	183	-78
Cash provided by operating activities	1.282	1.129
<i>Investments:</i>		
- Payments for investments in intangible and fixed assets	-1.328	-1.414
- Proceeds from disposal of intangible and fixed assets	75	88
- Acquisition of subsidiaries (net of cash)	-34	-16
- Proceeds from disposal of subsidiaries (net of cash)	12	66
- Payments for investments in other financial assets	-479	-1.046
- Proceeds from disposal of other financial assets	240	646
- Increase in equipment of leased assets	-327	-102
- Proceeds from disposal of leased assets	16	72
- Increase in finance lease receivables	-235	-210
- Decrease in finance lease receivables	57	172
Change of securities	288	-305
Change in cash from changes in consolidation	-158	-7
Cash used for investing activities	-1.873	-2.056
Change in financial liabilities	1.284	-715
Dividends paid to shareholders	-240	-403
Dividends paid to minorities	-30	-103
Own shares purchased	0	-152
Others	0	-1
Cash provided by (used for) financing activities	1.014	-1.374
Effect of foreign exchange rate changes on cash and cash equivalents	-36	-81
Change in cash and cash equivalents	387	-2.382
Cash and cash equivalents at beginning of period	5.400	7.481
Cash and cash equivalents at end of period	5.787	5.099
Additional securities medium-term	513	830
Cash and securities as stated in the Balance Sheet	6.300	5.929

In the first three quarters 2003, securities included in investing activities decreased due to sales by 288 M € (first three quarters 2002: increase of -305 M €). These medium-term securities are included in Securities as stated in the balance sheet.

As of September 30, 2003, 567 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 98 M € representing the amount Airbus has deposited at BAe Systems.

Consolidated Statements of Changes in Shareholders' Equity

	M €
Equity as of January 1, 2003	12.765
Net loss	-124
Dividends	-240
OCI	2.135
Equity as of September 30, 2003	14.536
Equity as of January 1, 2002	9.877
Net income	23
Dividends	-403
OCI	2.165
Treasury shares purchased	-152
Equity as of September 30, 2002	11.510

Notes to the Interim Consolidated Financial Statements (according to IFRS) as at September 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 incurring 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 42 % (projected in the first three quarters 2002: 41 %). 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 Systems 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.

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., 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 EADS Telecom France S.A.S..

Apart from these transactions, there were no material acquisitions or disposals of subsidiaries, business combinations, long-term investments and discontinued operations during the first three quarters 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.

in M €	Airbus	Military Transport	Aero-nautics	Defence & Security Systems	Space	HQ/ Conso.	Consolidated
Nine months ended September 30, 2003							
Revenues	12.051	410	2.452	2.957	1.473	-807	18.536
Research and development costs	1.308	15	50	149	39	0	1.561
EBIT pre goodwill amort. and exceptionals (see definition below)	701	-7	112	-18	-184	180	784
Nine months ended September 30, 2002							
Revenues	13.750	310	2.440	2.793	1.389	-686	19.996
Research and development costs	1.071	28	66	154	36	1	1.356
EBIT pre goodwill amort. and exceptionals (see definition below)	1.072	-79	84	-42	-101	79	1.013

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 €	January 1- Sep. 30, 2003	January 1- Sep. 30, 2002
Income before financial result, income taxes and minority interests	54	368
Income from investments	137	42
	191	410
Goodwill and exceptionals:		
Goodwill amortisation	422	431
Fair value adjustment	171	172
EBIT pre goodwill amortization and exceptionals	784	1.013

5. Significant profit and loss statement items

Revenues in the first three quarters 2003 reached 18.536 M € (first three quarters 2002: 19.996 M €). The decrease mostly reflects lower aircraft deliveries of Airbus Division and a weaker US-Dollar. This was partly compensated by 100 % consolidation of EADS Astrium in 2003 (previous

year 75 % consolidation) with an impact of 244 M € and increases in Defence and Security Systems and Military Transport Division.

Gross Margin of 3.596 M € nearly remains stable (first three quarters 2002: 3.699 M €). Lower deliveries of Airbus Division and inclusion of restructuring costs in Space Division are partly compensated by a more favourable mix of Airbus aircraft and improvement in other Divisions.

Research and development costs of 1.561 M € (first three quarters 2002: 1.356 M €) increased mainly because of the Airbus A 380 project.

Other income of 145 M € (first three quarters 2002: 205 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 -138 M € (first three quarters 2002: -77 M €), which changed mostly due to a higher interest charge accrued for refundable government advances in Airbus division and a lower interest net result due to a lower average Net Cash-position.

Income from investments of 137 M € (first three quarters 2002: 42 M €) was mainly influenced by the positive result of Dassault Aviation whereas the first three quarters 2002 also included a depreciation of -29 M € on the Arianespace investment. In the third quarter 2003, Dassault Aviation's financial performance according to IFRS for the full year 2002 and half-year 2003 was obtained. Since for third quarter 2003 no specific financial information is available yet from Dassault Aviation, the half-year net income 2003 of Dassault Aviation according to IFRS was used as a basis to estimate and report the current net income for the first three quarters, which also included an update of the prior periods financial performance under IFRS of Dassault Aviation.

Other financial result amounts to 18 M € (first three quarters 2002: 29 M €).

6. Significant balance sheet items

Intangible assets include 9.415 M € (prior year: 9.586 M €) of Goodwill, which is decreased according to the amortization plan. The reduction of Goodwill is partly compensated by an increase of 237 M €, mainly coming from the purchase of additional shares of EADS Telecom France S.A.S. and 100 % consolidation of Astrium.

Due to foreign exchange-rate effects of -194 M €, **Property, plant and equipment** only increased in total by 241 M € to 10.750 M € (prior year: 10.509 M €). Most of the increase is made by Airbus, due to strong capital expenditures related to the A380 project.

Financial Assets of 4.957 M € (prior year: 4.875 M €) increased in total – excluding foreign exchange-rate effect – by 355 M €, coming mainly from new customer financing and change in equity-value of Dassault Aviation.

Inventories of 3.850 M € (prior year: 2.700 M €), net of customer advances, excluding foreign exchange-rate effect of 460 M €, increased due to higher finished goods in Airbus Division and unfinished goods in all divisions, especially in Defence and Security Systems and Space Divisions. The increase was partly compensated by higher allocated customer advance payments namely in Airbus Division.

The decrease in **Trade receivables** by -315 M € (excluding foreign exchange-rate effect: - 238 M €) to 3.799 M € (prior year: 4.114 M €) is mainly due to a higher level of customer payments in Defence & Security Systems and Aeronautics Divisions, driven by a high level of revenues at prior years' end. This effect is partly balanced out by the additional consolidation of 25 % of Astrium and to the newly consolidated Paradigm Services Ltd. in Space Division.

The development of the \$ / € -rate (from 1 € = 1,05 \$ to 1 € = 1,17 \$) led to a positive mark-to-market revaluation of hedging instruments according to IAS 39 and to an increase by 3.088 M € to 5.907 M € classified as part of **Other receivables and other assets** (in total 8.215 M €, prior year 5.256 M €).

Stockholders' equity (including treasury shares) amounts to 14.536 M € (prior year: 12.765 M €), resulting from a Net loss of -124 M €, a dividend payment to shareholders of - 240 M € and changes in OCI of 2.135 M €.

Minority interests of 1.781 M € (prior year 1.361 M €) mainly represent shares of BAe Systems in Airbus Group and Finmeccanica in MBDA.

Provisions include 3.686 M € for retirement plans and similar obligations (prior year: 3.392 M €), 111 M € of provisions for financial instruments (prior year: 161 M €) and 4.487 M € of other provisions (prior year: 4.695 M €). The increase of provisions for pensions of 294 M € results mainly from 100 % consolidation of Astrium (153 M €). Other provisions are lower, coming from the utilization of a tax provision in Airbus Division and foreign exchange-rate effect of -190 M €. This is partly compensated by an increase in Space division (+166 M €), mainly to cover restructuring costs for SARA I.

Financial liabilities of 5.941 M € (prior year: 4.976 M €) have mainly increased due to the issuance of a Eurobond loan of 1.500 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. Net repayment of bonds by Headquarters (-160 M €) and a foreign exchange-rate effect of -526 M € partly offset the increase.

Without considering foreign exchange-rate effects of -289 M €, **Other liabilities** increase by 312 M € to 10.269 M € (prior year: 10.246 M €). Main impacts of the increase are European Government refundable advances and tax liabilities, partly compensated by lower non-allocated customer advance payments.

7. Significant cash flow items

Cash provided by operating activities with the amount of 1.282 M € (first three quarters 2002: 1.129 M €) is mainly driven by a positive EBIT pre goodwill amortization and exceptionals and a positive change in other assets and liabilities (working capital). Working capital is influenced by an increase of gross inventories in all divisions, which is overcompensated by positive effects from customer advances, European Government refundable advances and trade receivables. Consumption of provisions mainly results from former macro-hedges reclassified as micro in 2002 and taxes.

Cash used for investing activities of -1.873 M € (first three quarters 2002: -2.056 M €) is principally affected by payments for investments in intangible and fixed assets and customer finance activities, mainly in Airbus Division. Also included is the impact on Cash and cash equivalents resulting from the 100% (previous year 75 %) consolidation of Astrium of -160 M €. Positive effects are coming from the sale of mid-term securities by Headquarters.

Cash provided by financing activities amounts to 1.014 M € (first three quarters 2002: -1.374 M €) and mainly contains new Eurobond loans of 1.500 M € issued in 2003. It is reduced by the dividends paid to shareholders of - 240 M € as well as to BAe Systems of - 30 M € and net repayment of bonds by Headquarters (-160 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 799.284.309 as of September 30, 2003 and 2002, respectively. EADS' shares are exclusively ordinary shares with a par value of 1,00 €. During the first three quarters 2002, EADS repurchased 9.891.252 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 three quarters 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 to September 30, 2003	January 1 to September 30, 2002
Net income (loss) attributable to shareholders	-124 M €	23 M €
Weighted average number of ordinary shares outstanding	800.957.248	805.389.028
Basic earnings per share	-0,15 €	0,03 €

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 in June 2003 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 and Security Systems and Space divisions.

13. Number of employees

The number of employees at September 30, 2003 is 108.288 as compared to 103.787 at September 30, 2002 reflecting 100% consolidation of Astrium (previous year 75 %) as well as new employments at Airbus mainly in relation with the A380 program ramp up.