

First Quarter Report 2003

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

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Consolidated Income Statements

	January 1 - March 31, 2003		January 1 - March 31, 2002		Deviation	
	M €	%	M €	%	M €	%
Revenues	5.520	100	6.408	100	-888	-14
Cost of sales	-4.454	-81	-5.239	-82	785	-15
Gross margin	1.066	19	1.169	18	-103	-9
Selling, administrative & other expenses	-549	-10	-619	-10	70	-11
Research and development expenses	-528	-9	-403	-6	-125	31
Other income	55	1	112	2	-57	-51
Amortization of goodwill	-140	-3	-147	-2	7	-5
Loss (income) before financial result, income taxes and minority interest	-96	-2	112	2	-208	-186
Financial result	-14	0	-45	-1	31	-69
Income taxes	1	0	-96	-1	97	-101
Minority interest	16	0	4	0	12	300
Net loss	-93	-2	-25	0	-68	272
Earnings per share from net income	€		€		€	
Basic	-0,12		-0,03		-0,09	
Diluted	-0,12		-0,03		-0,09	

Consolidated Balance Sheets

	March 31, 2003		December 31, 2002		Deviation	
	M €	%	M €	%	M €	%
Fixed assets						
Intangible assets	9738	20	9789	22	-51	-1
Property, Plant and Equipment	10.603	22	10.509	22	94	1
Financial Assets	4.881	10	4.875	10	6	0
	25.222	52	25.173	54	49	0
Current assets						
Inventories	3.295	7	2.700	6	595	22
Trade receivables	3.678	7	4.114	9	-436	-11
Other receivables and other assets	6.149	13	5.256	11	893	17
Securities	5.169	11	4.497	9	672	15
Cash and cash equivalents	1.550	3	1.703	4	-153	-9
	19.841	41	18.270	39	1.571	9
Deferred tax assets	3.127	6	2.992	6	135	5
Prepaid expenses	895	2	965	2	-70	-7
Total assets	49.085	101	47.400	101	1.685	4
Shareholders' equity						
Capital Stock	811	2	811	2	0	0
Reserves	9.565	19	9.658	20	-93	-1
Accumulated other comprehensive income	3.210	6	2.452	5	758	31
Treasury shares	-156	0	-156	0	0	0
	13.430	27	12.765	27	665	5
Minority interests	1.530	3	1.361	3	169	12
Provisions	8.310	17	8.248	17	62	1
Liabilities						
Financial liabilities	6.181	13	4.976	10	1.205	24
Trade liabilities	5.012	10	5.070	11	-58	-1
Other liabilities	9.520	19	10.246	22	-726	-7
	20.713	42	20.292	43	421	2
Deferred tax liabilities	2.431	5	2.014	4	417	21
Deferred income	2.671	6	2.720	6	-49	-2
Total liabilities and shareholders' equity	49.085	100	47.400	100	1.685	4

Consolidated Cash Flow Statements

	January 1 - March 31, 2003	January 1 - March 31, 2002
	M €	M €
Net loss	-93	-25
Loss applicable to minority interest	-16	-4
Depreciation and amortization of fixed assets	453	576
Valuation adjustments	5	-27
Change in provisions	-197	-169
Change in deferred taxes	-95	-100
Results on disposals of fixed assets/businesses and result of associates (equity method)	-37	-62
Change in other operating assets and liabilities	102	498
Cash provided by operating activities	122	687
<i>Investments:</i>		
- Payments for investments in intangible and fixed assets	-409	-419
- Acquisition of subsidiaries (net of cash)	-4	0
- Payments for investments in other financial assets	-108	-426
- Increase in equipment of leased assets	-104	-88
- Proceeds from disposal of intangible and fixed assets	19	12
- Proceeds from disposal of subsidiaries	3	63
- Proceeds from disposal of other financial assets	81	214
- Proceeds from disposal of leased assets	3	0
- Increase in finance lease receivables	0	-97
- Decrease in finance lease receivables	9	155
Change of securities	9	-231
Change in cash from changes in consolidation	-160	-7
Cash used for investing activities	-661	-824
Change in financial liabilities	1.080	-150
Others	0	2
Cash (used for) provided by financing activities	1.080	-148
Effect of foreign exchange rate changes on cash and cash equivalents	-7	-2
Change in cash and cash equivalents	534	-287
Cash and cash equivalents at beginning of period	5.401	7.481
Cash and cash equivalents at end of period	5.935	7.194
Additional securities medium-term	784	783

Cash used for investing activities in the first quarter 2003 does include investment in securities of 9 M € (First quarter 2002: -231 M €); these medium-term securities are included in Cash and securities as stated in the balance sheet.

Consolidated Statements of Changes in Shareholder's Equity

	M €
Equity as of January 1, 2003	12.765
Net income	-93
OCI	758
Equity as of March 31, 2003	13.430
Equity as of January 1, 2002	9.877
Net income	-25
OCI	-162
Equity as of March 31, 2002	9.690

Notes to the Interim Consolidated Financial Statements (IFRS) as at March 31, 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

The 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. The estimated annual average tax rate pre goodwill amortization for 2003 is 41 % (2002: 41 %).

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 BAES' 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 BAES and EADS, has been transferred to EADS at this date.

At completion of the transaction, EADS acquired BAES' share in Astrium N.V. for 84 M €. Prior to completion, EADS and BAES each made a capital contribution into Astrium N.V. of 84 M € (total 168 M €). Taking into account the cash contribution, BAES' 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 quarter 2003.

4. Segment information

The Group operates in 5 divisions (segments) which reflect the internal organisational 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 light and medium military transport aircraft and special mission aircraft.
- *Aeronautics* — Development, manufacturing, marketing and sale of civil and military helicopters, military combat and trainer aircraft, regional turboprop aircraft and light commercial aircraft; and civil and military aircraft conversion and maintenance services.
- *Defence and Civil systems* — Development, manufacturing, marketing and sale of missiles systems; and provision of defence electronics, military and commercial 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."

in M €	Airbus	Military Transport	Aero-nautics	Defence and Civil Systems	Space	HQ/ Conso.	Consolidated
Three months ended March 31, 2003							
Revenues	3.775	96	969	530	403	-253	5.520
Research and development costs	445	6	29	37	11	0	528
EBIT pre goodwill amort. and exceptionals (see definition below)	166	-11	33	-72	-21	35	130
Three months ended March 31, 2002							
Revenues	4.646	101	936	539	426	-240	6.408
Research and development costs	320	8	25	39	12	-1	403
EBIT pre goodwill amort. and exceptionals (see definition below)	396	-12	16	-72	-33	20	315

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, as well as impairment charges.

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

Result before financial result, income taxes and minority interests	-96
Income from associates	24
	-72
Goodwill and exceptionals:	
Goodwill amortisation	140
Fair value adjustment	62
EBIT pre goodwill amortization and exceptionals	130

5. Significant profit and loss statement items

Revenues in the first quarter 2003 reached 5.520 M € (first quarter 2002: 6.408 M €). The decrease mostly reflects lower aircraft deliveries of Airbus and a weaker US-Dollar.

Research and development costs of 528 M € (first quarter 2002: 403 M €) increased mainly because of the Airbus A 380 project.

Other operating income of 55 M € (first quarter 2002: 112 M €) decreased, as last year it comprised the gain on the disposal of 50 % of Aircelle by Airbus (63 M €).

The **financial result** includes net interest of -18 M €, income from investments of 24 M € and other financial result of -20 M €, partly influenced by foreign currency financial instruments.

6. Significant balance sheet items

Compared to the beginning of the period, **fixed assets** remained nearly the same.

Goodwill decreased according to the amortization plan. Due to the 100 % consolidation of Astrium, Goodwill has increased by 83 M €.

Inventories increased mainly due to cyclic business mainly at Eurocopter.

The decrease in **trade receivables** is mainly due to high customer payments in Defence and Civil Systems and Aeronautics.

The development of the US-Dollar / € -rate leads to a positive mark-to-market revaluation of hedges according to IAS 39 and an increase to 3.934 M € as part of **other receivables and other assets**.

Provisions include 3.558 M € for retirement plans and similar obligations, 143 M € of provisions for financial instruments and 4.609 M € of other provisions.

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. Also included is a 86 M € decrease resulting from the first time consolidation of 100% of Astrium.

Other liabilities mainly include 4.193 M € of European Governments refundable advances and 3.172 M € of customer advance payments.

7. Significant cash flow items

Cash provided by operating activities is still **positive** but essentially influenced by an increase in inventories which is offset by a settlement of trade receivables. 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 mainly comprises an outflow for investments in fixed assets (CAPEX -409 M €) and an increase in aircraft under operating lease of -104 M €. Also included is the impact on Cash and cash equivalents resulting from the first time 100% consolidation of Astrium of -160 M €.

Cash used for financing activities has increased by 1.080 M € and contains mainly a new Eurobond loan of 1 billion € issued on March 3, 2003.

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 809.168.061 as of March 31, 2003 and 2002, respectively. EADS' shares are exclusively ordinary shares with a par value of 1,00 €. During the first quarter 2002, EADS repurchased 7.500 ordinary shares in conjunction with the

share-buyback program as approved by the general meeting in 2001. No shares were repurchased in the first quarter 2003.

10. Earnings per share

Basic earnings per share are calculated by dividing net income 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 March 31, 2003	January 1, 2002 to March 31, 2002
Net loss attributable to shareholders	-93 M €	-25 M €
Weighted average number of ordinary shares outstanding	800.957.248	809.175.311
Basic earnings per share	-0,12 €	-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 is the same for both basic and diluted earnings per share.

11. Dividend policy

The Group's Board of Directors will propose at the annual shareholders' meeting on May 6, 2003, to pay from distributable reserves 0,30 € per ordinary share 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 Space divisions.

13. Number of employees

The number of employees at March 31, 2003 is 107,263 as compared to 102,917 at March 31, 2002 reflecting Astrium first time 100% consolidation as well as new employments at Airbus to face the A380 program ramp up.