European Aeronautic Defence and Space Company EADS N.V.

Annual Report 2001

EADS
European Aeronautic Defence and Space Company

Contents

EADS in 2001

Revenues	€**30.8**bn
Order intake	€**60.2**bn
Order book	€**183.3**bn
EBIT* Earnings before interest and taxes	€**1.7**bn
Earnings per share*	€**1.16**
Work force (number of employees)	**102,967**

*pre-goodwill amortisation and exceptionals

European Aeronautic Defence and Space Company

The Group was formed in 2000 by the merger of aerospace and defence industry leaders in France, Germany and Spain sharing a common vision of the future. EADS is today the second largest global aerospace and defence group in the world. We hold commanding market positions in civil and military aircraft businesses, space technology, helicopters, missile systems and support services.

Our clear, integrated business strategy is focussed on growing profitably by meeting and anticipating the needs of our customers. We employ world-class advanced technology, and seek constant improvement to our products, processes and ways of doing business. In a fast-developing field, the diversity, creativity and openness to change of our entire workforce are key competitive advantages.

Our actions are driven by one overriding principle: reliability. We deliver what we promise.

We are committed to adding value for all our stakeholders by being adaptable, market driven and innovative.

EADS at a Glance

EADS is a leading global aerospace and defence company, with a unique portfolio of products, systems and services ranging from space launchers, satellites and missile systems to jet airliners, military transport and fighter aircraft, helicopters as well as maintenance and conversion services.

	Airbus p.32–37	Military Transport Aircraft p.38–39
Description of the business	Now an integrated company, 80% owned by EADS, Airbus produces the world's best-selling family of jet airliners. Airbus jets have incorporated many technical breakthroughs, such as fly-by-wire systems, and offer airline operators considerable advantages in terms of economical operation and environmental responsibility.	This Division produces light and medium military transport aircraft and Airbus military derivatives. It also manages the A400M heavy military transport aircraft programme. The A400M uses Airbus technology and design, and will offer unique operational flexibility.
Highlights of the year 2001	• 1,575 aircraft in order book • 85 firm orders and 12 customer commitments for A380 • A380 development programme on track and on budget • A340-500/-600 to enter service in 2002 • A318 readied for test flight • ACJ corporate jetliner takes increasing share of its market	• 8 countries sign up for the A400M heavy military transport programme • Contract signed for 8 C-295s for the Polish Air Force and acquisition of 51% in Polish PZL Warszawa Okecje • CN-235s ordered for the French Air Force • The CN-235 selected as the fixed wing platform for the US Coast Guard's Deepwater programme

Airbus A380

A400M

Airbus – 2001 (in €bn)

Revenues	20.5
Order book	156.1

Order book/2002 expected deliveries (in aircraft): 5.3 Years

Military Transport Aircraft – 2001 (in €bn)

Revenues	0.5
Order book	1.3

Order book/revenues: 2.6 Years

Aeronautics

p.40–43

This Division includes Eurocopter, the world number 1 in civil and military helicopter orders, and manufactures combat aircraft like Eurofighter, regional airliners, general aviation and business aircraft. The Division also provides maintenance and aircraft conversion for both military and civilian users.

- **Eurocopter share of the civilian market rises to 57%**
- **Over 500 military helicopters in order book; major export successes for Tiger and NH90 in 2001**
- **ATR Integrated created**
- **A €1.1 billion contract signed for Eurofighter training aids**

Eurofighter

2001 (in €bn)

Revenues	5.1
Order book	13.7

Order book/revenues

2.7 Years

Defence & Civil Systems

p.44–47

This Division offers customers a comprehensive portfolio of products and services – missile systems, defence electronics including surveillance and reconnaissance systems, radar, avionics and electronic warfare products, secure telecommunications, test solutions and support and engineering services for governmental customers worldwide.

- **MBDA created – the world's second largest missile systems company**
- **Strengthening of Systems and Defence Electronics activities through partnerships and contracts, e.g. in the UAV field**
- **Strengthening of secure telecom business through acquisition of the UK encryption leader (Cogent)**
- **Creation of a dedicated "Services" unit, concentrating particularly on outsourced government services**

Aster missile

2001 (in €bn)

Revenues	3.3
Order book	9.1

Order book/revenues

2.8 Years

Space

p.48–51

This Division is the third-largest space systems unit in the world, designing, developing and manufacturing telecom and earth observation satellites, orbital infrastructure and launchers, as well as providing services related to space telecommunications and being active in optronics and laser technologies.

- **Ariane 4 gains new reliability record**
- **Step 3 of the Ariane 5 programme approved by the ESA Ministerial Conference**
- **Skynet 4 successfully accomplished**
- **Early 2002: UK MoD decides on Skynet 5, Astrium to supply satellites**

Envisat

2001 (in €bn)

Revenues	2.4
Order book	3.8

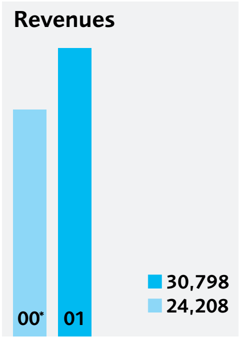
Order book/revenues

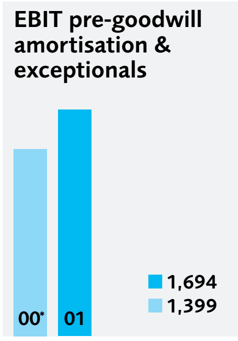
1.6 Years

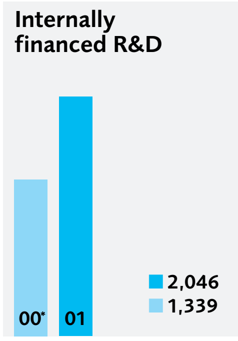
Key Figures

In 2001, EADS outperformed all set financial targets. EBIT margin pre-R&D increased to 12.1% and year-end net cash position was positive, at €1.5 billion.

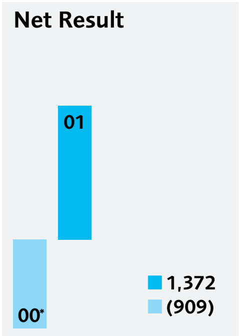
- **Revenues grew by 27% to €30.8 billion, a 10% growth excluding Airbus 100% first time consolidation**
- **EBIT margin pre-R&D increased from 11.3% to 12.1%, in spite of heavy non-recurring expenses**
- **Internally financed R&D rose, as anticipated, from 5.5% of revenues to 6.6%, mostly due to the development of the value creating A380 programme**
- **Free Cash Flow reached €774 million, and thus contributed to the positive net cash position of €1.5 billion at year-end 2001**
- **Order book reached €183.3 billion, a 39% growth from 2000, or 16% excluding the effect of Airbus 100% first time consolidation**

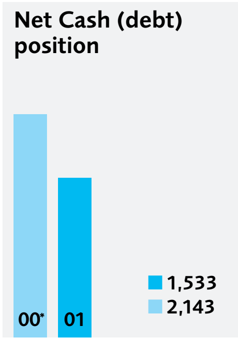


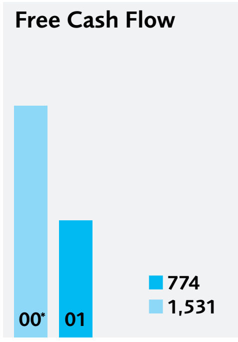




All figures are in millions of euros
*2000 is proforma figures; Airbus 100% consolidation from 2001

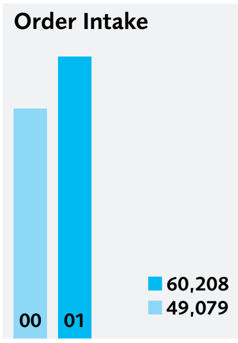


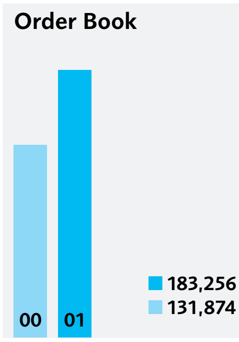


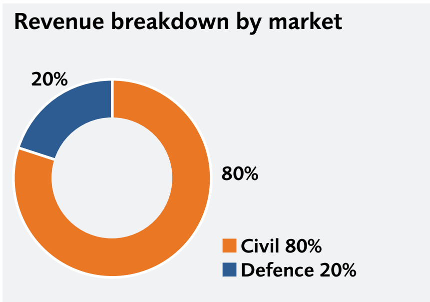


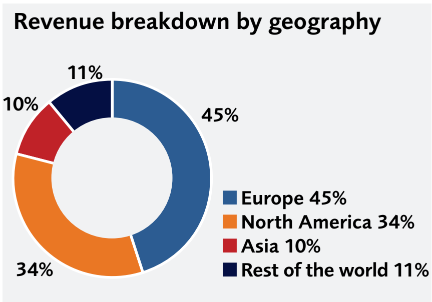
EADS increased revenues by 27% in 2001 to €30.8 billion, exceeding the 20% growth target. Revenue growth was 10% without the effect of the first time Airbus SAS 100% consolidation, reflecting higher Airbus deliveries and strong growth in all divisions except for Space Division. EBIT (Earnings before interest and taxes, pre-goodwill and exceptionals) of €1.7 billion was up by 21%, surpassing the 15% initial growth target. 2001 EBIT includes the first time 100% consolidation of Airbus and the planned increase in Research & Development (R&D) expenses. Moreover, the EBIT target was exceeded despite non-recurring expenses at the Defence and Civil Systems Division and at the Space Division, mostly resulting from continuing restructuring charges and exceptional depreciation of assets; these were offset by a better than expected performance in other Divisions and by over €100 million of additional savings resulting from merger integration synergies. Indeed, the Group has outperformed its target for 2001 and is ahead of initial plans to deliver €600 million of recurring synergies by 2004.

Net Result reached €1.4 billion, including exceptional items namely from the Airbus SAS and MBDA creation. Net result pre-goodwill and exceptionals turned positive from a loss of €45 million in 2000 to €936 million in 2001, representing €1.16 earnings per share.









Free Cash Flow reached €0.8 billion, reflecting a strong operating cash flow and the continuing tight control of working capital requirement, while we have maintained our investment effort to secure our future growth.

At the year-end, we still posted a solid positive net cash position of €1.5 billion.

Order intake was up 23% to €60.2 billion, twice as high as revenues. This strong performance illustrates not only the success of the A380 project for which we booked 85 firm orders; it also clearly demonstrates the competitiveness of our military programmes in export markets: with the NH90 ordered by Portugal, Finland, Norway and Sweden, and the C-295 military transport aircraft ordered by Poland. The €18 billion A400M project is not included in the 2001 order intake.

At year-end 2001, the order book of €183.3 billion was unparalleled in the industry; it represents more than six years of revenues and each of our five Divisions has a backlog exceeding one year and a half of revenues.

Message from the Chairmen

Welcome to this report on the first full operating year of the European Aeronautic Defence and Space Company.

Last year, we spoke of setting out on an exciting journey. Today, we are happy to report on the first successful steps of that journey. Our financial performance and the strong market position of our products equip us well to cope with a particularly challenging environment for our industry.

Since its inception in July 2000, EADS has established itself firmly as the second largest company in the aerospace and defence industry, winning important new customers in export markets, making new technological advances, launching new products such as the Airbus A380 and markedly improving its financial results.

We have made substantial progress with the integration of the Group's operations. About 670 merger integration projects are currently under way to create value through inter-company synergies and performance improvements and the more efficient use of existing know-how and capital investment. This includes 276 projects with a direct impact on EBIT. The results already achieved are well in excess of expectations.

Synergies achieved through Group sourcing deserve special mention, and other initiatives include the exchange of best practice, technologies and knowledge throughout the Group in the areas of Research and Technology (R&T), manufacturing, engineering and product support.

As a leader in the aerospace and defence industry, EADS continued to drive further integration and industry consolidation in 2001. Among other initiatives, we established Airbus as a fully-integrated business and created MBDA, the world's no. 2 missile systems company.

We are well-positioned to face the future's challenges, and we have the will and resources to emerge all the stronger for meeting them head-on.

Looking to the future
The year, of course, was dominated by the appalling events of 11th September. Inevitably, these have had an important impact on our different businesses, and there is no doubt whatsoever that we face major challenges in the years ahead.

Manfred Bischoff and Jean-Luc Lagardère

However, we have full confidence in the strategy laid down by the Board, and we are further strengthening the Group's efficiency and profitability. Financial stability and soundness is our clear priority. Airbus is already operating more efficiently as an integrated company, and has confirmed the encouraging potential for the A380 superjumbo; MBDA has led consolidation in the field of missiles; and we are forging new partnerships with US industry – another of our major priorities.

It also remains a fact that we have a very strong portfolio of products, which gives us a robust competitive position in world markets, whatever the conditions may be. These include new-generation commercial aircraft designed around our customers' requirements for economy, environmental safety and operating efficiency, as well as technologically-advanced defence systems which are able to contribute significantly to military effectiveness and – ultimately – to political stability. We have, too, a growing capability to provide support services for customers both civil and military, in an increasing number of countries and locations.

Most importantly, we have a unique team of talented, resourceful and committed people, capable of developing the new ideas, products, services and technologies that our customers – and the world at large – will need in the future.

In short, we are well-positioned to face the future's challenges, and we have the will and resources to emerge all the stronger for meeting them head-on.

We are going forward, fully committed to safeguarding the best interests of our shareholders, customers and employees; and we look forward to reporting further progress in the coming months.

Manfred Bischoff
Chairman

Jean-Luc Lagardère
Chairman

Answering to our Stakeholders

The Chief Executive Officers address some of today's key questions.

What, for EADS, was the most important feature of the 2001 financial results?

We have once again fulfilled the promises we made at the outset of the year. EADS is one of the few companies in our industry to have met, and even surpassed, its financial targets despite the events of 11th September, with sales up more than 27%, EBIT* up to €1.69 billion and a net cash position of €1.5 billion at the end of 2001. This was achieved despite some heavy non-recurring expenses – mostly in the Space Division, but also in Defence and Civil Systems Division. Moreover, our free cash flow generation demonstrated again that we can self-finance the Airbus A380 programme, without jeopardising our financial situation.

Can you point to some of the more significant events of the year?

Our defence business strengthened in 2001. The biggest single piece of news was the agreement by eight countries in December 2001 to go ahead with the A400M military transport aircraft. This is the first European aircraft in a market segment up to now dominated by US suppliers. EADS is the prime contractor for this programme which secures over €18 bn of revenues and strong EBIT from 2002 to 2018; the overall project stake for EADS being almost 90% (including 100% Airbus consolidation).

Our new-generation military helicopters – Tiger and NH90 – won contracts worth over €1.6 billion from Australia, the Nordic countries and Portugal, against heavy competition. We now have over 500 military helicopters in our order book. This shows just how competitive our military products are in export markets – which is an excellent sign for the future.

Another significant step in defence was the creation of the MBDA company in partnership with BAE Systems from the UK and Finmeccanica from Italy. MBDA is the second-largest missile company in the world. It has an outstanding order book amounting to €12 billion – nearly six years' revenues. We've also reinforced EADS military telecom activity by the acquisition of COGENT, the UK leader in communication encryption.

In our civil business, Airbus was the clear market leader in 2001, taking 61% of global gross orders in value. The A380 programme also got off to an excellent start, with 85 firm orders and 12 customers commitments being signed with nine different clients. Importantly, 37 of those 85 were signed after the 11th September, demonstrating the strong market demand for this programme, even in a downturn.

Even so, the slump in air travel is going to hurt the group, isn't it?

It is a challenge – particularly for Airbus. Airlines are having severe problems. One immediate effect is that we had to stabilise Airbus deliveries planned now at 300 for 2002, whereas we were previously planning to increase our production rate significantly.

*EBIT pre-goodwill and exceptionals.

Future A380 building

Philippe Camus and Rainer Hertrich

But air traffic indicators show a slight recovery at the beginning of 2002. Going forward, we believe that the traffic growth will continue at an underlying average rate of about 5% per year. Moreover, new products like the Airbus A380 will be entering service at exactly the right time to benefit from the upturn.

How well can EADS cope with the current uncertainty?

We start with some tremendous strengths – including a current order book of €183.3 billion, or six years'-worth of revenues. It's bigger than any of our competitors'.

Immediately after 11th September, we implemented a number of concrete actions to secure cash and profitability; these include the freeze of all investments and hiring (excluding for the A380 programme), and new cost saving plans. Thanks to the very high degree of flexibility built into our production organisation, including the high proportion of subcontracting, flexible work agreements and contracts and short production lead times, we are well prepared to weather the storm and secure future profits. Moreover, we have a leading and growing defence business, which will partly offset the effects of the civil aviation downturn.

How do you plan to develop your defence business?

We are already a defence leader, number two in Europe. Our defence business (including military aircraft of all types and helicopters, military satellites, missiles, defence electronics, secured telecommunication) has strong positions in all segments and produces combined revenues of €6.1 billion of revenues in 2001, representing 20% of our total revenues. Looking at our order book, we foresee that our defence revenues will grow by more than 50% by 2004, including the A400M programme to be booked this year. At the same time, the profitability of the defence business should dramatically improve as we complete our restructuring and enter into the delivery phase for most of our military programmes.

What are your priorities for the coming year?

Our highest priority is to continue to build shareholder value. We will achieve this by growing our defence business and securing our activities in commercial aircraft. This will also involve reducing working capital, tight control of customer financing, a freeze on capital expenditure except for the A380 programme and the active control of all costs. Our management objective is simple: "Cost Down, Cash Up, Contracts In".

Philippe Camus
Chief Executive Officer

Rainer Hertrich
Chief Executive Officer

Financial Markets and Policy

During the year under review, the EADS share price went through four main phases.

Share price movements

Stock price evolution as of March 2002

From January to June 2001, EADS shares traded in a range of €20 – €23. This was in fact a good performance at a time when the major stock indices were moving significantly downwards.

Then, for much of the summer, it varied between €23 and €25 – reaching its all year high of €25.07 thanks to the very encouraging level of orders announced at the Paris Air Show.

The third phase started mid August, when the financial markets began to worry about the economic outlook and airline passenger traffic and wondered whether we had reached the peak of the cycle in the aerospace segment. The share price went down to the €18/€19 level.

The fourth phase was triggered by the events of 11th September, following which the financial markets became extremely pessimistic about the economy and airline traffic. All markets suffered, but EADS stock like that of other companies of the aerospace sector, was among the worst-hit, following the halting of air traffic in the US and the unprecedented 30% fall in air traffic in September/October 2001.

Between 7th and 21st September, our shares lost half of their value, reaching an all time low of €9.14.This was followed by a gradual recovery, up to €13/14 at the end of 2001 implying that a catastrophic scenario was now behind us. This level is a low price compared to historical high levels but still represents a better performance than stock market indices (CAC 40 namely). On 28th December 2001, the closing price was €13.64 – a recovery of 49.2% from the year's low.

The average volume of trading for the year 2001 was around 1.7 million shares a day.

The continuing recovery of the economy and airline traffic at the beginning of 2002 as well as defence growth opportunities (such as Paradigm and A400M) have already started to support the EADS stock price. Moreover, Airbus has confirmed deliveries around 300 aircraft in 2002, which is close to the 2001 level (325).

The medium and long term fundamentals of the industry remain solid with an expected underlying average air traffic growth of about 5% and good opportunities for aircraft replacement.

Axel Arendt
Chief Financial Officer
EADS Executive Committee Member
EADS Board Member

Managing challenge and securing growth

Following 11th September, EADS management reacted immediately to safeguard value creation in this challenging environment.

Preservation of solid profitability and cash levels
Immediately after 11th September, EADS Finance created a new business plan based upon revised market assumptions. As a first consequence this led to an adjustment of the Airbus production capacity which is being implemented. Company-wide, all major investments with the exception of the Airbus A380 programme have been screened again, recruitment has been frozen and additional cost saving targets have been set. All Business Units have been challenged to generate and implement additional measures in order to preserve solid profitability and cash levels.

The benefits from these additional cash and cost saving measures will come on top of our goals set at the time of the EADS creation. We confirm our target to deliver a recurring €600 million of additional EBIT by 2004 resulting mainly from group-wide purchasing, production and R&D synergy projects, and we expect that by 2002 we will have achieved half of this amount. The €100 million of additional value created in 2001 (well ahead of target) vindicates this expectation. Combined with our strong positive cash position at year-end 2001, this will enable us to continue with the ramp up of the A340-500/-600 production and the development of the A380 programme – securing our profitable revenues of tomorrow.

Value Based Management
To focus even more on cash, EADS has designed a new corporate performance metric following the Value Based Management approach. The future top financial performance indicator will be named 'Cash Value Added (CVA)' (definition below). This will foster a company wide management culture of value creation. Beginning with this year's planning process we will use CVA for our internal financial target setting.

Our financial policy is driven by our commitment to creating value, which motivates the investment into profitable businesses and stimulates synergies while maintaining a healthy balance sheet.

Definition:
The Cash Value Added (CVA) will be calculated by subtracting a "capital charge" – using the company's weighted average cost of capital – from the "Gross Cash Flow". The CVA will be used as a financial target and performance measure on EADS group and division level. CVA/Delta CVA will be an element of the compensation evaluation for executives from 2003 onwards.

Strategic Overview

EADS today is the second-largest group in the global aerospace and defence industry, with a unique range of products and services.

In 2001, EADS made enormous progress in its portfolio strategy of strong, balanced growth between commercial aerospace and defence.

This portfolio strategy means:

- **Taking a leading role within the aerospace and defence Industry on a European, transatlantic and global level; and**
- **Pursuing new defence opportunities.**

Improved Market Position
We aim to achieve a highly visible position in all major aerospace and defence markets around the world.

Central to this objective is our active leadership of European aerospace and defence consolidation. The creation of the Airbus integrated company has triggered increased efficiency and opportunities, whether in new commercial ventures such as the A380 or in the defence area with the A400M. The formation of MBDA has established the world's number two company in missile systems. We shall continue to pursue the necessary restructuring of the European industry, particularly in space (Astrium and EADS Launch Vehicles), military aircraft and defence systems activities.

Beyond Europe, we are actively building international partnerships in order to strengthen access to growing markets. Such strategically-driven moves have included the acquisition by our secured telecom subsidiary EADS Defence and Security Networks (EDSN) of Cogent, the UK's leading encryption and secure communications company, which has strengthened our participation in the Bowman UK defence telecommunication programme. Other examples have been the purchase of a stake in Patria, the aerospace leader in Finland, PZL Warszawa Okecje in Poland and Hawker Pacific of Australia. These market footholds have already helped us to win export contracts worth over €2 billion. And we are pursuing partnership opportunities in Russia, Korea, Japan and China, as well as in the Middle East and South America.

From the outset, we have actively sought international partnerships in order to strengthen access to growing markets.

Expanding our access to the growing US defence market is a necessary component of our strategy. We are currently working successfully with Northrop Grumman (on Unmanned Aerial Vehicles (UAV) and NATO's Alliance Ground Surveillance), with Boeing (on Theatre Ballistic Missiles Defence) and Lockheed Martin (on Medium Extended Air Defence System – MEADS), as well as discussing partnerships on mission aircraft and defence electronics.

We anticipate that this trend will continue as we pursue opportunities in areas such as multi-mission aircraft, tankers, and missile defence.

Jean-Louis Gergorin
Executive Vice President
Head of Strategic Coordination
EADS Executive Committee Member

Our ambition is to make EADS the world leader of aeronautics, defence and space.

Integrated Defence Strategy
With €6.1 billion of defence revenues in 2001, EADS is the clear No. 2 European player. Our defence businesses, including military aircraft and helicopters, military satellites, missiles and defence electronics currently contribute about 20% of Group revenues. In the medium term, we aim to increase these defence revenues by more than 50%.

Our defence strategy is focused on those mission areas we believe represent the greatest potential growth. Coordinated by its Defence Strategy Coordination Group, EADS is harnessing resources from across the company in the following fields: Intelligence (C4ISR), Deterrence and Power Projection, Survivability and Homeland Security.

Current offerings in these areas are:
- Intelligence (C4ISR): the Helios remote surveillance satellites, the Eurohawk unmanned aerial vehicle (UAV), the Rubis and Acropol encrypted mobile communication networks and the C-295 Maritime Patrol Aircraft
- Deterrence and Power Projection: the M51 ballistic missile, the Eurofighter combat aircraft[1], the Scalp Storm Shadow cruise missiles, the Meteor air-to-air missile, the A400M and the CN-235 and C-295 military transport aircraft
- Survivability and Homeland Security: the Aster and Meads missile systems.

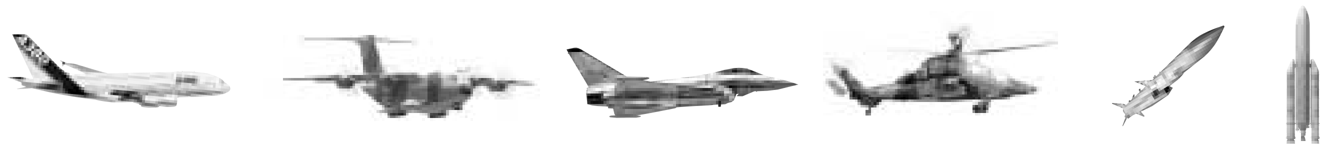
Looking to the Future
One year after the merger, EADS has secured a leadership position in its commercial and defence businesses.

Our experience confirms our strategy, which is that a balanced position between commercial and defence lessens our exposure to market cycles and ensures steady growth over time. We can expect to see EADS building value through organic growth, synergies between commercial and defence businesses, and through new alliances and acquisitions that increase our presence around the world.

[1] In addition, EADS is a major financial investor in Dassault Aviation (45.94%) which manufactures Mirage and Rafale fighter aircraft, and the Falcon business jets

Market Overview

A turbulent 2001 offered both challenge and opportunity. The commercial business faced increased pressures, and in defence, the need was confirmed for new and technologically-advanced solutions for defence strategy and procurement. As the global environment improves, the EADS portfolio of leading commercial and defence products is strongly positioned to emerge stronger and more profitable.



Competitive times for our clients

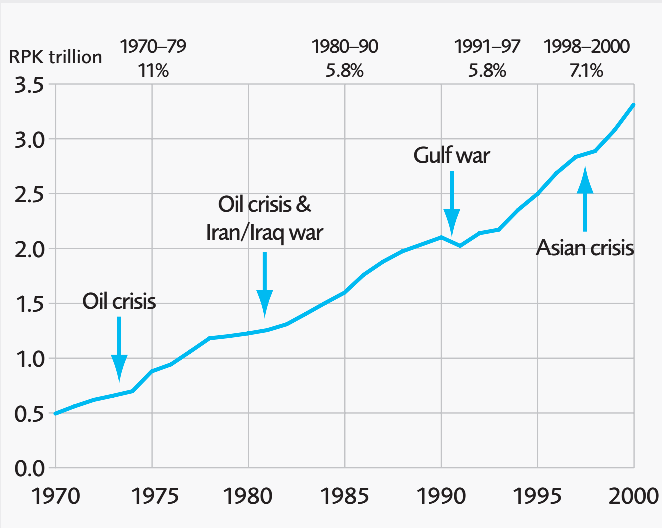
The large commercial aircraft market
2001 will be remembered as the first year since the Gulf War in which the long-term growth in air passenger traffic suffered a sharp setback – with obvious repercussions for aircraft manufacturers.

Over the past 40 years, air traffic growth has averaged around 7.5% per year, as the world GDP (Gross Domestic Product) and disposable consumer income have followed a consistent upward trend. Deregulation allowed airlines to compete on price and, coupled with network expansion, to attract millions of new customers. The large commercial aircraft market is a dynamic one, driven by airlines' changing policies on route structures, demanding a wide and continually-evolving mix of aircraft types.

Through the years, the challenge for aircraft manufacturers has been to provide new aircraft which are more cost-effective to operate and can meet tougher environmental and noise constraints. In the first half of 2001 the signs of a downturn in the commercial aviation industry were already visible. Annual international air traffic growth dropped to 2% and US airlines, for example, had already started predicting losses of up to US$2 billion.

After the events of 11th September, however, airlines experienced an additional sharp drop in traffic and have shed their excess capacity.

While it is only to be expected that 2002 will be a slow one for the industry, the longer-term prospects are positive. The US Government has acted swiftly and has decisively limited damage to airlines by offering, amongst other measures, a US$15 billion rescue package (of which US$5 billion were cash injections and US$10 billion were guarantees) and passenger numbers have recovered more quickly than expected. Meanwhile, major US airlines have reported "bottoming-up" of traffic. While in October 2001 air traffic declined to 78% of the previous year's, it climbed back to 85/90% in December 2001.



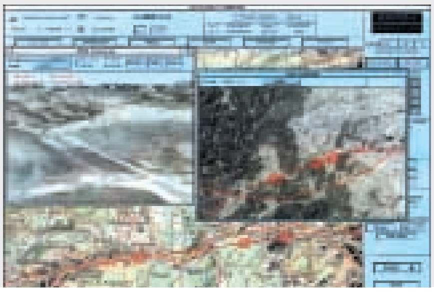
World Annual Traffic
(in Revenue Passenger Kilometers, RPK trillion)
Source: ICAO

A solid recovery is expected, but to predict its timing is still a delicate task. On the one hand, US consumer debt and unemployment levels pose risks. On the other, the US economy is expected to return to health during 2002 and customers' confidence in the air transport system is returning. This will inevitably lead airlines, once they have rebuilt their cash positions, to re-equip, since much of the capacity they have shed in the downturn consisted of older aircraft, due in any case for replacement. Airlines are also likely to continue the trend towards harmonised fleets consisting of a smaller number of types.

In such an environment, the market-leading Airbus product family – covering all types of routes from ultra long-haul to short-haul with latest-generation designs, outstanding performance, highly cost-effective profiles and extensive operational commonality – should enjoy considerable competitive advantages.

Airbus A310 freighter

EC135 on a rescue mission

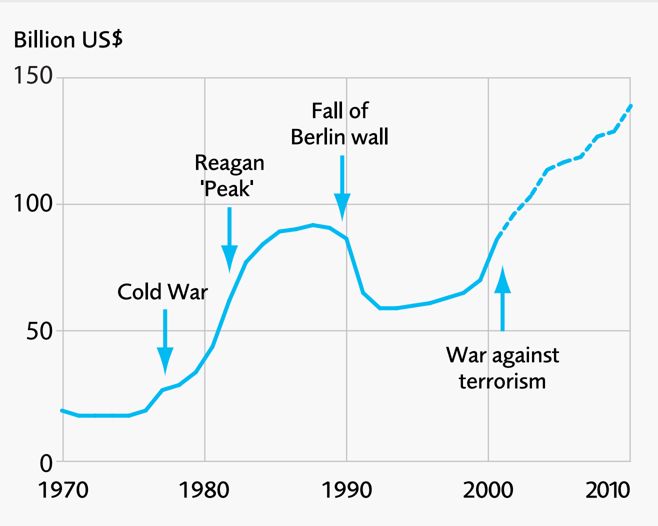


Aircraft mission planning

The defence market
The September events have accelerated a number of developments in the defence environment, re-defined transatlantic strategic relationships between the US and Europe, and generated unique and technologically advanced needs for governments and defence ministries throughout the world.

Following a US government decision prior to 11th September, the US defence budget for 2002 has been raised towards US$334 billion. Further increases are expected from the United States, including an investment of US$13.7 billion to respond directly to the attacks. Still more raises – up to US$48 billion – in US defence budget are expected for the budget year 2003 to carry on the transformation of defence.

Now more than ever, Europe and many other governments are increasing their efforts to analyse their role in global and homeland security. There are a number of factors that will influence the market for defence equipment and services in the short and medium term future.



Total US and Europe Defence Procurement Budget
Source: NATO, JP Morgan and others

First, there is a stronger awareness of European gaps in terms of the capabilities required of national armed forces. There will be an increased emphasis on homeland protection (better C4ISR, border surveillance, protection against NBC threats, perhaps including some form of ballistic missile defence), force projection and deployment – the ability to mount remote operations and to supply and reinforce troops far from their home bases. This has evident implications for the demand for military transport and mission aircraft, light, medium and heavy alike. In particular military transport aircraft and military helicopters will be the key strategic segments to ensure logistics support in the new force projection policy.

Also relevant to power projection, the importance of advanced technology has been confirmed by the conflict in Afghanistan, which has demonstrated the vastly increased ability of force commanders to attack targets with total precision – both enhancing the effectiveness of attacks and minimising casualties. It has again underlined the value of intelligence derived from satellites, unmanned aerial vehicles (UAVs) and unmanned combat aerial vehicles (UCAVs), real time command and control systems, smart munitions and cruise missiles for deep strikes.

Together with the trend to increased system sophistication there will be a request to improve integration, flexibility and interoperability. The key will be the ability of complex systems to provide a seamless flow of information at all stages from intelligence gathering through decision-making and implementation as well as throughout all systems in the operational theatre. Electronic warfare and secured, deployable telecom are amongst key assets to be procured.

Market Overview
continued

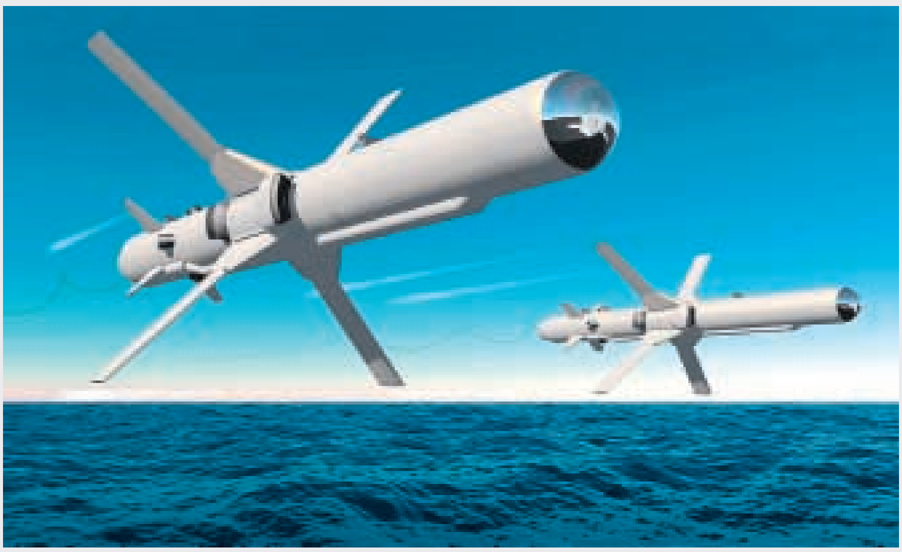
In addition, the market driver that remains is the pressure on manufacturers to provide ever-increasing value for money, despite the growing complexity of their products. This altogether could increasingly lead to further consolidation within the marketplace, as well as to increasing numbers of international partnerships. In addition, we expect many armed forces to discover the virtues of outsourcing repair and maintenance activities, in the drive for cost-effectiveness across all their operations.

We believe that EADS' "young" defence portfolio is well-suited to contribute to and to benefit from virtually all these trends in the sphere of national and international defence.

Other commercial markets

Civil Helicopters

The world-wide market for civil helicopters has been growing during 2001 from 474 deliveries in 2000 to 495 in 2001. This ranges from helicopters for corporate executives and diverse commercial applications to offshore oil operators and state agencies including police forces, medical services and fire fighting teams. Especially after 11th September, the demand for parapublic helicopters has increased significantly. Civil helicopter markets should remain strong over the next five years.



Polyphem missile

Civil Space
2001 saw difficult conditions in the field of space activity. European institutional budgets were stable or at best slightly increasing, and commercial orders were below last year's level for several reasons: first, the slower-than-expected development of the market for new telecommunications applications like broadband; second, the ongoing consolidation and restructuring process among major operators, the consequence of which was a reduced or delayed demand for new satellites. In this market, space manufacturers, including Astrium, the 75% controlled EADS subsidiary, generally recognise an over-capacity situation in the telecom satellite market. The global economic environment in 2001 affected overall demand for telecom satellite capacity. The launcher segment was therefore affected by a decline in the total number of commercial launches as well as from heavy competition and pricing from launchers supplied from eastern countries and operated by US companies.

Airbus A300-600ST 'Beluga'

Astrium – Re-Entry System IRDT

Our ability to adapt swiftly and effectively to change

adaptable

New ways of thinking are second nature to companies who depend on developing and using leading-edge technologies.

But at EADS with our multicultural organisation, this adaptability and openness to change isn't just a matter of technology; it's fundamental to the way we approach our whole business, our customers and our other stakeholders. And it's driving a process of change that is already achieving results.

Improving the organisation
From day one, EADS has been aware that opportunities could be created by sharing the resources, experience and know-how of its Business Units. This process – Merger Integration – has proved to be a principal building-block for the Group's future and has already produced substantial added value.

Some 670 Merger Integration projects including 276 with direct impact on EBIT have already been implemented to strengthen the transfer of best practice and the sharing of means, tools and knowledge between Divisions and Business Units. These include initiatives in Research and Technology, manufacturing, engineering, purchasing and product support – and during 2001, they have already delivered value creation of more than €100 million additional EBIT – over 60% above target. Our goal is to achieve recurrent additional EBIT of over €600 million by 2004.

And our new marketing and sales operation – EADS International – is just one more example of the strengths of our merged operations.

Sharing knowledge, improving products
Another major advantage for the Group comes from its ability to make use of technologies across national and Divisional boundaries. Increasingly, this is being put into practice, with Airbus skills, for example, being used to develop and produce the A400M.

We are also among the global leaders in partnerships, working closely and effectively with companies ranging from BAE Systems, Thales, Finmeccanica in Europe to Northrop Grumman and Boeing in the US; sharing information, risk and technology in order to produce better solutions for the customer at a competitive price.

Eurofighter

In a year of dramatic change for the aerospace and defence industries, the ability of EADS to adapt its operational approach swiftly and effectively has already proved its value.

A330 Air Tanker version

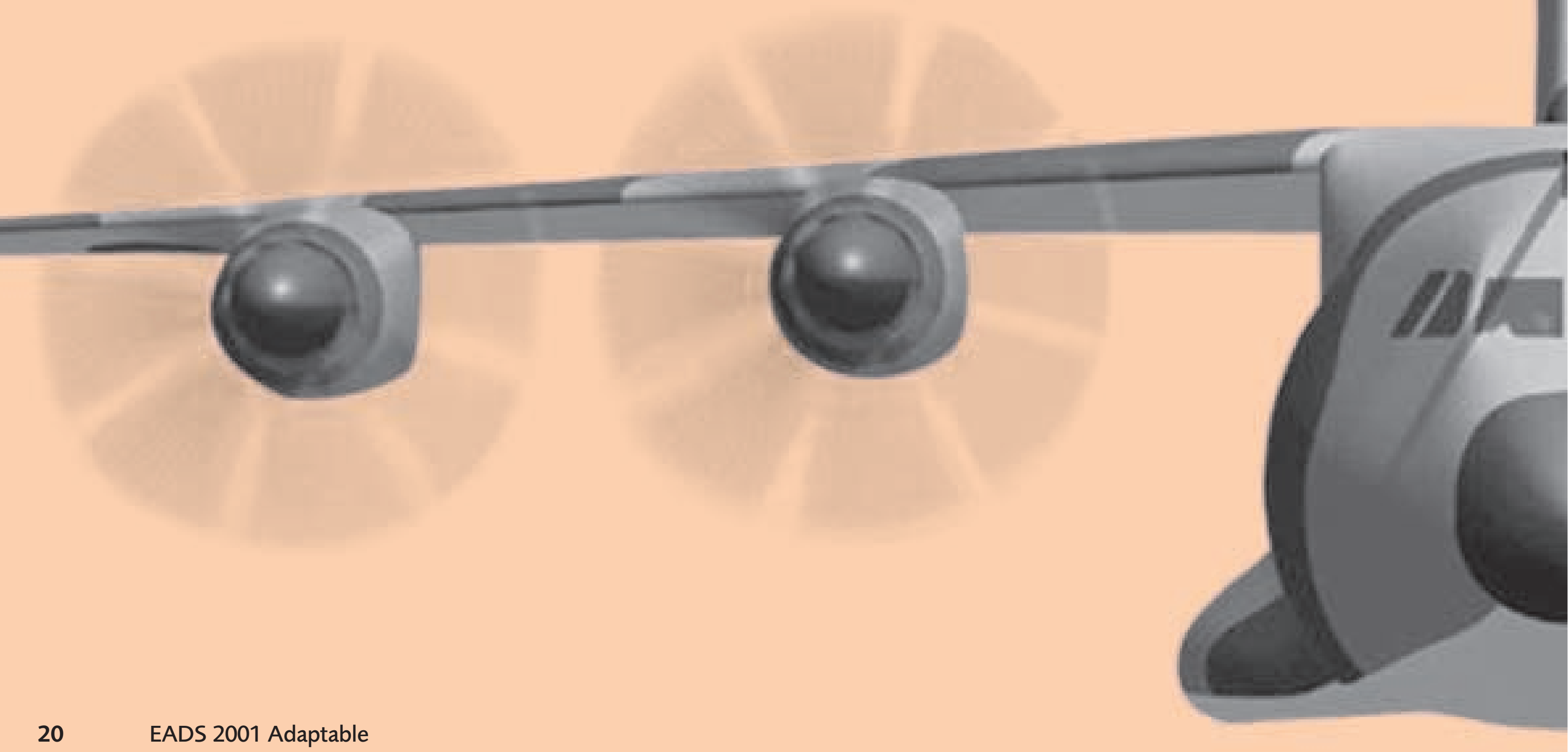
Keeping Airbus on course – and climbing

The appalling events of 11th September impacted on the whole world, accelerating the onset of a global economic recession, and aggravating the cyclical downturn in the civil aeronautical sector in particular. Thanks to its built-in organisational production flexibility, Airbus has been able to react quickly to this new environment.

First, Airbus conducted with its customers an in-depth analysis of its order book, to confirm that it is made up of orders from customers who are still capable of taking delivery of their aircraft as scheduled. The company also decreased its customer gross financial exposure for the third consecutive year, thus ensuring greater flexibility to cope with the current difficult period.

Engineer servicing an A310 engine

Next, Airbus reviewed its production plans for 2002 and 2003. Having foreseen a cyclical downturn long before the events of 11th September, Airbus had already begun to slow production ramp-up in the summer of 2001, and currently expects to deliver approximately 300 aircraft in 2002, whereas it was previously planned to increase annual production rates up to 400 aircraft.



This is not a drastic reduction from the 2001 level (325), but rather corresponds to a freeze of production rate. Organisational flexibility has allowed Airbus to adapt to this level with no dramatic effect on its workforce, whose valuable skills will be essential to ensure its continued success in the anticipated recovery.

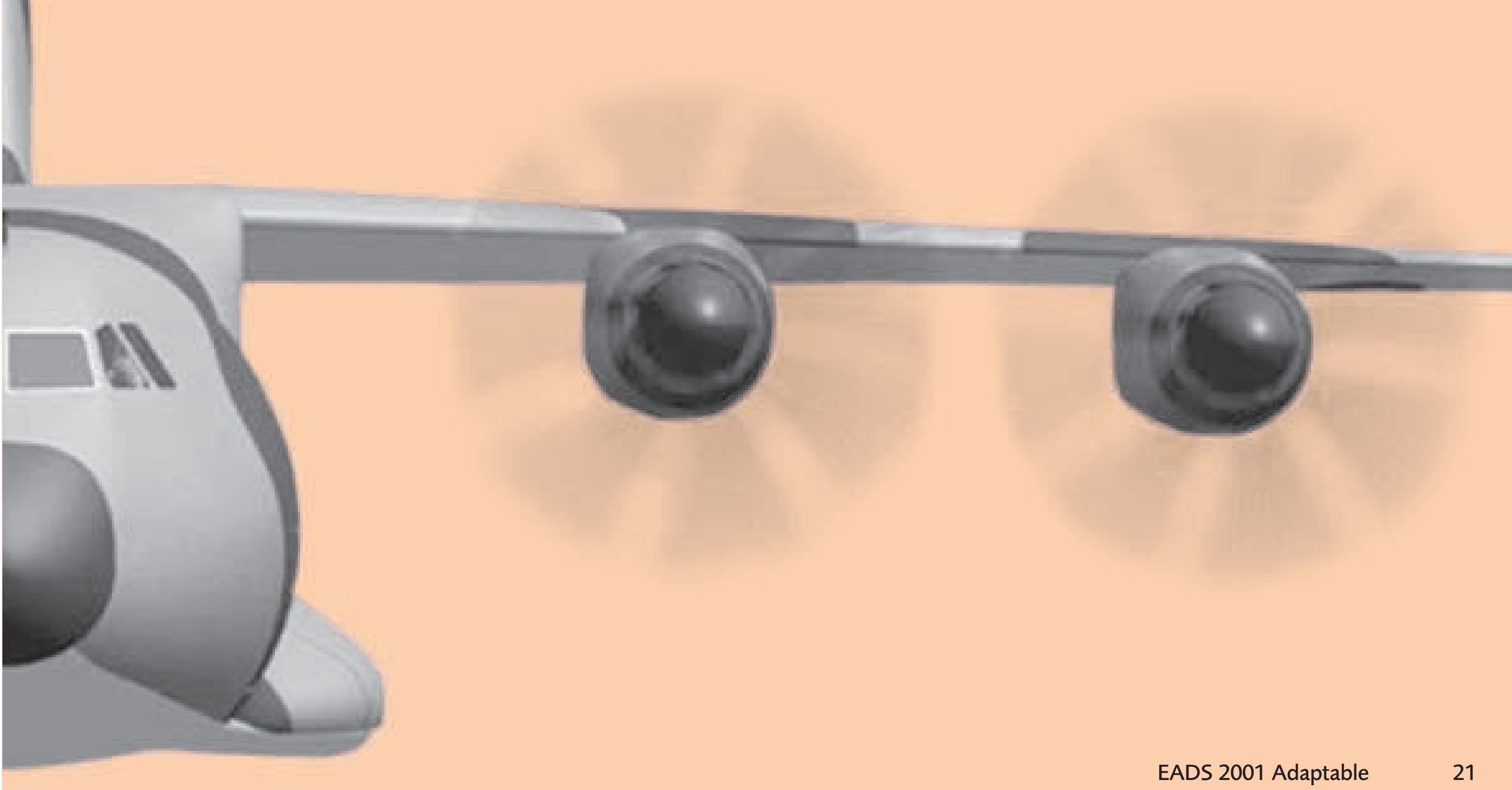
Using established skills in a new context

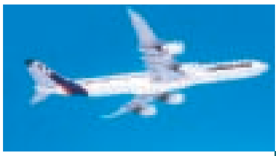
EADS is determined to grow the proportion and importance of its defence activities within its business portfolio – adapting to a global environment in which security and defence issues will be emphasised much more than during the 1990's.

The A400M, the large European military transport aircraft representing the biggest contract for EADS since its creation, is an outstanding example of our ability to adapt to these changing needs. The A400M transforms civil technology into a military product, proving our ability to achieve synergies through cross Business Unit activities, and uses the same flexible production system as used for Airbus.

At the same time, the A400M is able to meet the requirements of eight nations and their armed forces, as well as of other future customers. And the product itself is very adaptable: it can be used for the transport of troops, materials or large equipment, such as helicopters or armed vehicles.

Envisat is placed in an Astrium anechoic chamber to check compatibility of the various radio frequencies





First flight
Airbus A340-600

A400M

What do customers want today?
How can we listen to their needs most effectively?
What are they likely to need tomorrow?

market driven

EADS is committed to the creation of maximum value for its stakeholders – customers, shareholders, employees, local communities and the wider national and international public.

To achieve that aim we need to understand our stakeholders, their businesses, their needs and their objectives. And our track record of doing precisely that is unsurpassed in the industry.

The A380 has been designed in consultation with over 80 different airlines, following research among commercial airlines managers, pilots, airport authorities – and even passengers. Our civil aircraft are not only state-of-the-art; they are also backed by customer service oriented support.

Our family of helicopters, now complete, is designed to cover virtually all customer needs from civil and parapublic transport to military and naval attack – while in the field of military aircraft, we can offer not only the most advanced machines, but also integrated logistic support and training simulators.

The military tactical transport aircraft A400M was conceived not simply as a result of a military specification, but tailored to fit a wide variety of defence requirements, answering the demand for high payload, long range and high cruise speed.

In the field of mission aircraft, we draw on all existing knowledge and capabilities within the relevant business units. This "one face to the customer" approach creates clear communication – and best technological solutions into the bargain. One example: the bid to supply Maritime Surveillance Aircraft to the US Coast Guard, where all contenders propose to make use of the EADS aircraft CN-235 as the fixed-wing platform.

Other examples of major European projects in which EADS plays a key role to meet new market requirements on the military side:
- the Skynet 5 satellite programme, in which Astrium will offer a new generation of secured telecommunications services to the UK MoD
- the UK MoD Future Tanker aircraft Bid offer, for which the EADS solution meets all the Air Force specifications.

And as a global company with a worldwide reach and state-of-the-art products, EADS Business Units can stay close to their customers, continuously meeting demands and offering tailor-made solutions. Eurocopter, for example, has created a global network of subsidiaries to keep in direct, day-to-day contact with its individual regional markets.


Tiger HAP

From mass-market air travel to the most advanced space systems, EADS is staying ahead of market trends to deliver more of what our customers want in a more cost-effective form.

The ongoing success of Airbus has been based on the company's ability to develop new programmes adapted to market demand.

Airbus now offers a complete range of civil aircraft stretching from 100 to more than 500 seats in capacity, with a unique degree of interoperability and common servicing requirements. This choice, combined with the reduced operating costs of Airbus aircraft and their ability to conform to the strictest environmental and safety standards, is in line with customers' priorities as confirmed by the current slow-down, since it allows airlines to fine-tune their fleet organisation to optimise efficiency.

Hellas obstacle warning system for helicopters

The latest programmes such as the A380, the A340-500/-600 and the future military A400M are all on track and running on schedule.

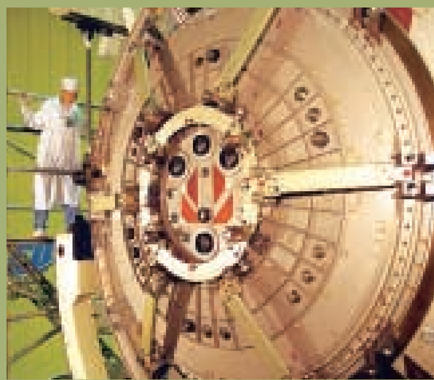
A market opportunity that's literally out of this world
Satellite-based navigation, positioning and accurate timing information is increasingly significant in many sectors of commercial activity – and the market potential is huge. Estimates suggest that over the 20-year period from 2005 (beginning of the deployment phase) the European market for satellite user equipment and related services could be worth around €200 billion. The positioning signals available today come from the United States' Global Positioning System (GPS) and, to a lesser extent, the Russian Global Navigation Satellite System (Glonass).

EC130

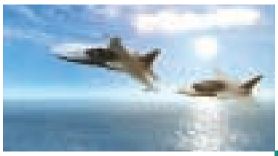
Both were designed for military purposes and neither system can provide the quality and reliability of service to meet modern demands for safety, efficiency and competitivity: Glonass currently operates only around half its satellites and the GPS signal is deliberately and variably downgraded according to US strategic imperatives.

The European Union has identified a need for a global navigation service under international civil control, and the result is Galileo, a proposed satellite navigation system. The system will be interoperable with GPS and leveraging position information into other systems extends the benefits of Galileo. For example, the integration of a Galileo receiver into a GSM handset will provide access to a whole range of personalised 'position related information services'.

Galileo is a major opportunity for the space industry in the widest sense. Through Astrium, with its extensive experience of satellite navigation, EADS is playing a major role in the design and development of the system.



Columbus research laboratory for the International Space Station (ISS)


MAKO


NH90

Pushing the boundaries of technology and new thinking

innovative

EADS today is working on some of the most advanced projects in our industry; among them the A380, the Eurofighter, the A400M, the Herschel space telescope and the new generation ram jet air-to-air missile.

For tomorrow, we have unique resources in our Research and Technology Development activities – which are focused on strengthening our core competencies and delivering improved bottom-line benefits for customers.

A structure that delivers results
Operating both through the recently-established EADS Research and Technology Network (tasked with achieving synergies throughout the Group) and the Corporate Research Centre, our research activities are currently concentrated on five core technologies which have been identified as major competitive strengths.

These are:
- Advanced materials, structures and manufacturing for cost-effective production;
- Electronics, microelectronics/optronics and microwave technologies to provide integrated, "smart" products;
- The physics of flight, propulsion, energy and acoustics, to aid the production of environmentally friendly aircraft and high performance vehicles;
- Systems and related services to create robust intelligent systems which will extend our business opportunities; and
- Information and software technologies and advanced processes which will address economic and cost issues through "virtual product engineering".

The EADS Corporate Research Centre with its national centres and its Paris central management is increasingly seen by European Governments and research establishments as a model for international integration which respects national strengths. Research co-operation across Europe and across Group activities is strengthening our ability to deliver the advances in technology that our customers demand.

ISS

EADS has a unique heritage of innovations – including the first turbine helicopter, the shrouded helicopter tail rotor (Fenestron), the first twin-engined widebody jet airliner, the first fly-by-wire systems for commercial aircraft and military helicopters and the application of lightweight carbon fibre composites in Airbus.
And tomorrow is another day . . .


Airbus laser welding

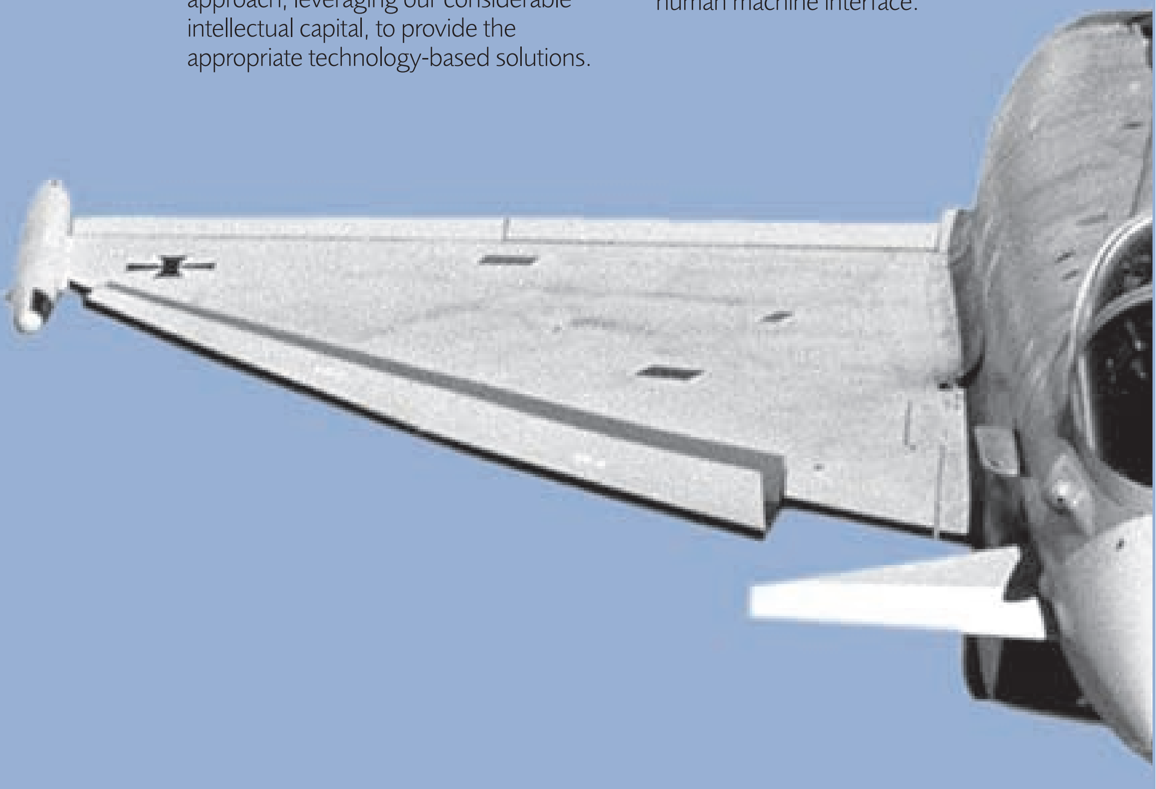
Maintaining leadership in research
We are now moving to create the EADS Common Research Programme 2002–2004. In the short term, this will allow us to select and refine our portfolio of projects in order to optimise the creation of added value.

In 2002, we shall continue to apply our R&T abilities to improving productivity, performance and environmental compatibility for the benefit of our customers. We will also continue to take an active role in the International Aerospace Quality Group (IAQG).

Looking further ahead, we see an ever-growing demand for improvements in safety in many aerospace product areas, and we shall be following a structured approach, leveraging our considerable intellectual capital, to provide the appropriate technology-based solutions.


Aerodynamic study in a wind tunnel

Safeguarding the future
Eurofighter is the most advanced multi/swing-role combat aircraft for the decades to come. By fully exploiting the unique direct voice input (DVI) principle in latest-generation fighter aircraft, the Eurofighter sets new standards in "care-free handling" and an optimum human machine interface.



State-of-the-art avionics, the 'glass cockpit' design, and the latest technologies for electronic self-defence, weapon deployment, navigation, system monitoring, and communications/data link ensure a high degree of efficiency. The multiple redundant digital Flight Control System (FCS) in conjunction with two newly developed high-performance engines safeguard both excellent flight performance and reliability.

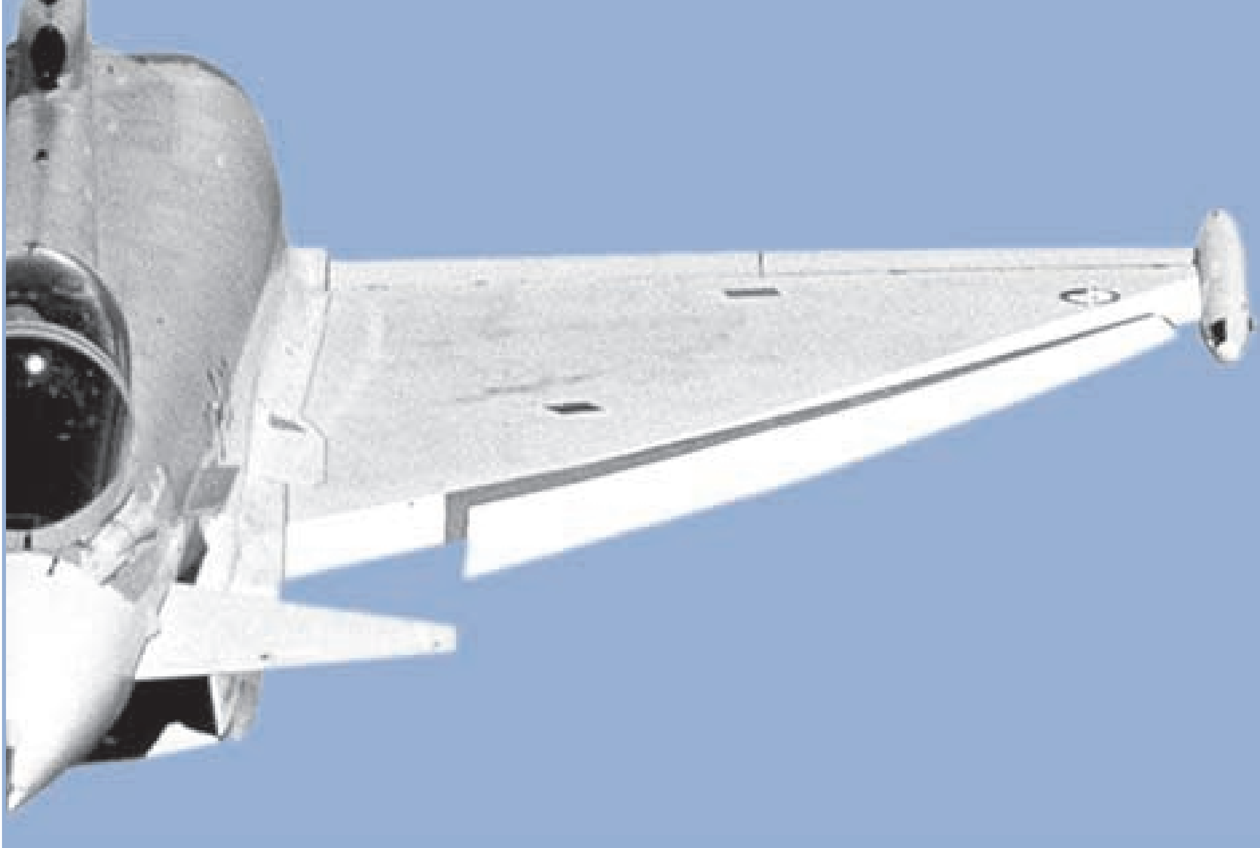
Uncovering the secrets of the Universe

Pioneering research and development by Astrium is set to revolutionise space telescopes, allowing us to see further than ever into deep space, and into the mists of time.

The European Herschel Space Observatory, to be launched in 2007, will carry an Astrium-built 3.5-metre-diameter primary mirror, the largest imaging telescope ever launched, and will bring us closer to understanding how the earliest stars and galaxies formed about 13 billion years ago.

This has been made possible by the use of silicon carbide (SiC), a highly stable material which allows the manufacture of very large ultra-lightweight mirrors. It is the result of investments made by Astrium in joint research and development activities carried out with Boostec in France since 1992.

Mars Express with Beagle 2



Business Structure

With the streamlined management structure that EADS has set up, the Heads of five operating Divisions – Airbus, Military Transport Aircraft, Aeronautics, Defence and Civil Systems, Space – report directly to the CEOs. Each of the five operating Division Heads is responsible for profit and loss as well as for meeting profitability targets.

Airbus	Military Transport Aircraft
Noël Forgeard	Alberto Fernández

Executive Committee
The CEOs are supported in their operational tasks by an Executive Committee made up of the Heads of each operational Division and of the Heads of the three major functions of the Company. Such Executive Committee chaired by the CEOs is made up of 11 members.

Airbus	EADS CASA (Military Transport Aircraft)
Noël Forgeard	**Alberto Fernández**

Members of the Executive Committee

Back row (left to right)

Dietrich Russell Aeronautics Division

François Auque Space Division

Jean-Paul Gut EADS International

Jean-Louis Gergorin Strategic Coordination

Thomas Enders Defence and Civil Systems Division

Gustav Humbert Airbus Chief Operating Officer

Front row (left to right)

Axel Arendt Chief Financial Officer

Rainer Hertrich Chief Executive Officer

Philippe Camus Chief Executive Officer

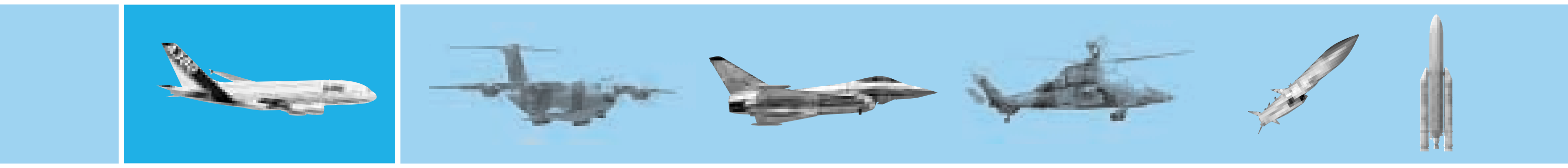
Alberto Fernández Military Transport Aircraft Division

Noël Forgeard Airbus President and Chief Executive Officer

Aeronautics Dietrich Russell	Defence & Civil Systems Thomas Enders	Space François Auque
EADS Military Aircraft **Aloysius Rauen**	Systems and Defence Electronics **Stefan Zoller**	Astrium **Antoine Bouvier** **Joseph Kind** **Evert Dudok** **Chris Chant**
Eurocopter **Jean-François Bigay**	EADS Services **Jacques Vannier**	EADS Launch Vehicles **Philippe Couillard**
EADS ATR **Jean-Michel Léonard**	MBDA **Fabrice Brégier**	EADS CASA Espacio **Pedro Mendez**
EADS EFW **Dierk Minke**	EADS LFK **Werner Kaltenegger**	EADS Space Services **Ulrich Aderhold**
EADS Sogerma Services **Yves Richard**	EADS Telecom **Jacques Payer**	EADS Sodern **Henri Dugré**
EADS Socata **Philippe Debrun**		EADS Cilas **Jacques Battistella**

Airbus

In its first full year as an integrated company, Airbus continued to achieve healthy commercial results. Airbus delivered a record 325 aircraft, captured a 61% share of the global market in terms of order value and strengthened its profitability pre-R&D. At the same time Airbus took immediate actions to preserve cash and margins in the current commercial aviation downturn.



- **1,575 aircraft in order book**
- **85 firm orders and 12 customers commitments for A380**
- **A380 development programme on track and on budget**
- **A340-500/-600 to enter service in 2002**
- **A318 readied for test flight**
- **ACJ corporate jetliner takes increasing share of its market**

2001 Results
Airbus has been operating effectively on an integrated basis since the beginning of 2001 and its results are 100% consolidated in EADS accounts for the first time in 2001. Mainly due to this consolidation, revenues increased by 38%. On a comparable basis, they increased by 10%.

Airbus delivered a record 325 aircraft – 257 single-aisles and 68 wide-bodied and long-range aircraft, generating revenues of €20.5 billion – making 2001 the first year in history in which its revenues have exceeded €20 billion.

This continued healthy commercial result was achieved despite a general economic slowdown, which deteriorated significantly after 11th September.

New orders
While the number of units ordered for Airbus was lower than the 2000 peak (520 gross orders), Airbus won – in line with its forecasts – 375 gross orders representing 53% of the market in terms of aircraft units, and an impressive 61% market share in terms of value. Firm orders booked in 2001 comprised 175 A320 family aircraft, 61 A300/A310 widebody twins, 54 long-range A330/A340s and 85 for the future A380.

The events of 11th September naturally produced a rapid change that radically affected the airlines. A sharp downturn in air traffic numbers put most of them in a difficult situation. Airbus decided to adopt a very conservative approach and to write off 101 orders from its order book – mostly with airlines in bankruptcy.

Airbus A340-600

AIRBUS

millions of euros	2001	2000**	variation
REVENUES	**20,549**	14,856	**+38%**
EBIT*	**1,655**	1,412	**+17%**
ORDER INTAKE	**50,279**	34,158	**+47%**
ORDER BOOK	**156,075**	104,387	**+50%**

in number of aircraft	2001	2000	
DELIVERIES	**325**	311	**+5%**
ORDER BOOK	**1,575**	1,626	**–3%**

* pre-goodwill amortisation and exceptionals
** pro forma, excluding Airbus UK

Noël Forgeard
Airbus President and Chief Executive Officer
EADS Executive Committee Member
EADS Board Member

€20.5bn
revenues

€156bn
order book

However the order book of 1,575 aircraft worth €156.1 billion at the end of 2001 is well ahead of the competition for the second year running. This gives Airbus more than five years of production ahead at the expected rate of 2002. On the basis of detailed discussions with individual customers, Airbus expects to deliver approximately 300 aircraft in 2002.

Key events of the year
Since July 2001, Airbus has been an integrated, stand-alone company with a single management team. This has represented a major step forward for the company, which has focused on getting the organisational structure up and running effectively. Integration is now fully operational, with single reporting lines and an impressive team spirit, Airbus is now a fully-fledged enterprise in its own right.

By 2004, Airbus will contribute €350 million to the EADS €600 million additional EBIT target from Merger Integration value creation.

Airbus is also actively managing the downturn in the post-September civil aviation market, and has taken company-wide measures to maintain profitability pre-R&D. These include the stabilisation of deliveries at about 300 units, a pause in recruitment (except on the A380 programme) and the implementation of a further number of ongoing cost savings plans. These steps, combined with highly flexible production systems, should allow Airbus to maintain in 2002 production costs per unit, despite the decrease in deliveries. The overall Airbus target is to reduce costs by €600 million per year: €200 million through R&D reductions on non-critical programmes and €400 million in overhead cost savings.

Moreover, at a time when customers may require more financing facilities, Airbus has the flexibility to make decisions to support its customers on a case-by-case basis. Indeed, for the third consecutive year, Airbus has reduced its customer financial gross exposure despite the increase in deliveries, and now has the flexibility to increase this exposure, if needed, under tight control.

A318 Assembly line

Airbus
continued

Product Milestones

ACJ
Increasing demand for flexibility and security are favouring the Airbus Corporate Jetliner (ACJ), of which Airbus has now sold 30 units into a growing market. Uniquely, the ACJ can be converted back to normal commercial format for airline use, and the aircraft is attracting interest from airlines willing to offer high-level corporate service to major customers.

A318
In mid January 2002 the 107-seat A318 successfully completed its maiden flight. The A318 is the latest addition to Airbus range, and is designed to serve markets with frequent services on low-density routes. As part of the Airbus 320 family, offering identical conditions of comfort and operation, it allows customers to manage their fleets more flexibly and to optimise load factors. Airbus has firm orders for 114 A318s, which will begin to enter service in 2003.

Gustav Humbert
Executive Vice President
Airbus Chief Operating Officer
EADS Executive Committee Member

A340-500/-600

The A340-500 and -600 are the latest ultra long range, high-capacity additions to Airbus' portfolio of products. Designed in consultation with airlines around the world, they offer new levels of comfort and refinement as well as lower operating costs and better revenue potential than their competitors. Airbus has firm orders for 62 of these aircraft.

Airbus currently has three A340-600 aircraft in flight test, where they have been meeting (and frequently surpassing) expectations. Certification is due in May 2002, and entry into service in June 2002. The first A340-500 flew in February, should be certified in October and is expected to enter service in November 2002.

Airbus A320 family

A330 and A340 final assembly line

Airbus
continued

A380
The A380 programme to develop and manufacture the world's first 555-seat aircraft is running on time and within budget, particularly with reference to the objective of making the first deliveries in first quarter 2006. Total development costs have been held at US$10.7 billion, and the financing is almost entirely in place. Risk-sharing partners have been found for up to US$3.1 billion of non-recurring costs.

More than 4,000 people are currently working on the project, and this will rise to a maximum of 6,500 by the middle of 2002. Offices have been built and facilities including the final assembly line sites in Toulouse and Hamburg are under construction.

Airbus firmly believes that the civil aviation market will continue to grow strongly in the medium and long term, and is convinced that it will demand this aircraft for its performance. This is confirmed by its customers who placed 85 firm orders during the year (of which 37 came after the events of 11th September), as well as a further 12 commitments which are expected to be turned into orders in 2002. Since the A380 will be the youngest product on the market, Airbus will be able to integrate the latest standards of security. Moreover, it will be delivered at a time when the civil aviation market should have already recovered.

Above: Airbus A380

Top Left: A320 family cockpit

Below left: Airbus A318

A380 interiors

Outlook

Downturn in the airline industry notwithstanding, Airbus believes that it is exceptionally well-positioned to meet the present and future challenges of the market place.

Airbus has a unique range of products, stretching from 107 to 555 seats. Each on its own offers the customer solid advantages of cost and performance; together, they form a family with a high degree of commonality and interoperability, for more efficient fleet operation that can be responsive to market changes. Customers are increasingly focusing on the economy and environmental friendliness of aircraft; and also on these criteria, the Airbus offering is exceptional.

Airbus also has a highly efficient work force. More than 45,000 employees are to deliver 300 new aircraft in 2002, as well as continuing to develop three major new programmes, giving Airbus a dramatic advantage over the competition. Staffing arrangements and conditions of employment are flexible.

This flexibility, the complete range of Airbus products meeting market requirements, and its robust backlog are key assets for the successful management of the current civil aviation downturn.

Military Transport Aircraft

With an exceptional rise in revenues and orders, the Division confirmed its leadership position in the field of medium military transport aircraft, and is preparing for the A400M programme. Aerostructures won considerable business from other important manufacturers.

- **8 countries sign up for the A400M heavy military transport programme**
- **Contract signed for 8 C-295 for the Polish Air Force and acquisition of 51% in Polish PZL Warszawa Okecje**
- **CN-235 ordered for the French Air Force**
- **The CN-235 selected as the fixed wing platform for the US Coast Guard's Deepwater programme**

The Division recorded revenues of €547 million; an increase of 73% on the previous year. This was mainly due to new deliveries of the C-295 and to the conversion of two A310s to VIP configuration for the Spanish Air Force, and was achieved with a small increase in staff (from 3,548 to 3,573).

Even more impressive was the rise in order intake from €0.5 billion to €1 billion – with the total order book growing from €0.9 billion at the end of 2000 to €1.3 billion by the end of 2001. This represents more than two years' production for the Division.

Military Transports

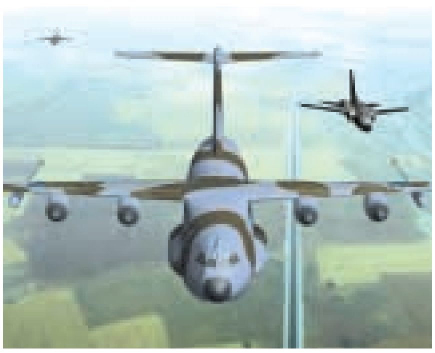
Heavy airlifters: A400M

The inter-governmental Memorandum of Understanding to develop the advanced A400M military heavy transport aircraft was signed at the Le Bourget Air Show in June 2001, and on 18th December 2001, eight nations signed a contract for the development and production of 196 aircraft – Germany (73), France (50), Spain (27), United Kingdom (25), Turkey (10), Belgium plus Luxembourg (8) and Portugal (3). The contract enforcement is expected this year. The Division will provide technical and industrial logistic support (ILS) leadership on the project – in which EADS has an 89.5% stake (including 100% Airbus consolidation) – as well as being responsible for the final assembly line at San Pablo, near Seville, Spain.

Medium Military Transport Aircraft

The order for the Polish Air Force signed on 28th August 2001 for eight C-295 aircraft together with product support services was a major step forward in the positioning of this product as the world's leading new-generation medium military transport. EADS CASA raised its stake in PZL Warszawa Okecje, the main Polish aeronautic company, to 51%, thus increasing the overall industrial presence of EADS in east Europe.

A400M



MILITARY TRANSPORT AIRCRAFT DIVISION

millions of euros	2001	2000**	variation
REVENUES	**547**	316	**+73%**
EBIT*	**1**	(63)	**–**
ORDER INTAKE	**993**	493	**+101%**
ORDER BOOK	**1,320**	873	**+51%**

* pre-goodwill amortisation and exceptionals
** pro forma

Alberto Fernández
EADS CASA Chief Executive Officer
Head of Military Transport Aircraft Division
EADS Executive Committee Member

€0.5bn
revenues

€1.3bn
order book

C-295

The Division´s CN-235 and C-295 have achieved a market share of 71% in year 2001. The first three C-295 aircraft were handed over to the Spanish Air Force, and four CN-235s were delivered under an Industrial Collaboration Programme with Turkey.

Mission Aircraft and Derivatives

In February 2001, the Division flew for the first time the FITS (Fully Integrated Tactical System) on board a modified CN-235 prototype aircraft. This system, a major innovation for a new generation of Maritime Patrol, ASW (Anti Submarine Warfare) and related mission aircraft, has been of capital importance for the success of the Division.

In March, the FITS-equipped C-295 ASW Maritime Patrol aircraft was selected as the winner of the competition for the United Arab Emirates Navy's Shaheen 1 project.

Also relevant is that the CN-235 has been selected as the fixed-wing platform by all three potential main contractors – Boeing, Lockheed Martin and RAIS (Raytheon Aircraft Integration System) – for the US Coast Guard's Deepwater maritime patrol programme. Moreover, the FITS system is included in the bids presented by Boeing and Lockheed Martin. This contract is of major importance, for both qualitative and quantitative reasons.

Within the A330 Airtanker consortium, the Division has presented a bid to the UK Royal Air Force for the FSTA (Future Strategic Tanker Aircraft). This programme has a huge economic magnitude – around €3 billion for aircraft – and under the PFI (Private Finance Initiative) will provide the Royal Air Force with air refuelling services for 27 years.

The Division has also a substantial level of facility in aerostructures for various aircraft manufacturers.

Mission system FITS (Fully Integrated Tactical System)

Outlook

In 2002, we expect to begin development work on the A400M, as well as the selection of the prime contractor for the Deepwater programme. Following a successful 2001, we expect even better results in the coming year, with EBIT continuing to improve and the order book increasing substantially.

Aeronautics

Revenues rose by 8% to €5.1billion. Eurocopter consolidated its position as the global market leader in civil helicopters as well as winning key military export orders. Military Aircraft continued development and preparation for the first deliveries of the Eurofighter. Demand for regional and light aircraft remained healthy. And our maintenance and conversion activities continued to make a valuable contribution.

- **Eurocopter share of the civilian market rises to 57%**
- **Over 500 military helicopters in order book; major export successes for Tiger and NH90 in 2001**
- **ATR Integrated created**
- **A €1.1 billion contract is signed for Eurofighter training aids**

Engine maintenance

The Aeronautics Division achieved revenues of €5.1 billion with all Business Units contributing to this increase. New orders at €5.3 billion were strong even after the exceptional year of 2000.The order book stood at a healthy €13.7 billion at the year end, covering the next three years' business activities. Our involvement in three major pan-European defence programmes – the Eurofighter combat aircraft and the Tiger and NH90 military helicopters – and our growing ability to offer comprehensive support packages for helicopters, fighters and transport and mission aircraft provide a solid foundation on which to achieve our targeted growth in the defence sector.

Eurocopter

In the civil and parapublic markets, 495 helicopters were delivered worldwide, of which Eurocopter (the market leader), accounted for 280 – raising its market share from 51% to 57%. This exceptional achievement is the result of Eurocopter's product policy of continuous improvements to meet customer requirements. Latest addition to the product range during the year was the EC130 light single helicopter, one of the quietest helicopters in the world. Development of the EC145, an extensively modified version of the BK117, progressed well during the year.

In 2001, the market for military helicopters amounted to some US$7 billion and Eurocopter captured 25% of the export market for military helicopters. With the deliveries of NH90, Tiger and EC725 programmes, Eurocopter aims to capture about 20% of the market by 2008. Excluding the US, this will represent some 40% of the defence helicopter market.

Major developments in the year included the preparations for serial production of the Tiger 2-seat combat helicopter for the French and German armies. In December, the Australian Government placed an order for 22 Tigers, underlining this machine's export potential. This €0.7 billion contract will be booked in 2002.

AERONAUTICS DIVISION

millions of euros	2001	2000**	variation
REVENUES	**5,065**	4,704	**+8%**
EBIT*	**308**	296	**+4%**
ORDER INTAKE	**5,315**	8,322	**–36%**
ORDER BOOK	**13,722**	13,067	**+5%**

* pre-goodwill amortisation and exceptionals.
** pro forma

Dietrich Russell
Executive Vice President
Head of Aeronautics Division
EADS Executive Committee Member

€5.1bn
revenues

€13.7bn
order book

Eurofighter

The NH90 – a new-generation transport helicopter for Army and Navy, developed in a programme involving France, Germany, Italy and the Netherlands – is also getting ready for serial production, with the first deliveries scheduled for the end of 2004. The NH90 also achieved a major export success worth €0.9 billion in total, with Portugal ordering ten and the Nordic Standard Helicopter Project involving 52 aircraft for Finland, Sweden and Norway, for which part of the order will be booked in 2002.

There are currently some 9,000 Eurocopter machines being operated by 2,065 customers in 133 countries. This creates a healthy market for our customer support activities which represented 34% of our revenues in 2001, and whose availability, in turn, makes our aircraft more marketable in both new and second-hand markets.

Military Aircraft:

Eurofighter

Eurofighter is the state-of-the-art, multipurpose combat aircraft for the coming decades as well as an engineering project of key significance for its European partner countries, which have ordered 620 units. EADS, with a 43% stake in the programme, produces middle sections in Germany and starboard wings in Spain for all aircraft and assembles the German and Spanish aircraft. During 2001, we focused on the final assembly and equipping of the first German Instrumented Production Aircraft, which will be delivered in the second half of 2002, and on the first production aircraft for Spain. In April, the contract was signed between the Eurofighter management company and Netma, the customers' organisation, for the design, production and support of the Eurofighter Aircrew Synthetic Training Aids (ASTA). We are actively marketing the Eurofighter to potential customers in Europe and Asia. Development of the multi-role functions of the aircraft continues and will be integrated in future contract tranches.

Tornado and other Fighter Upgrade Programmes

In September 2001, a contract for the basic integration programme of avionics for the Tornados of the German and Italian air forces was signed by the Panavia Tornado consortium and Netma. At the same time, we signed a contract for the Royal Air Force's Tornado upgrades, and are looking to extend this type of service to other Tornado operators.

Other upgrade activities are being undertaken for the Hellenic Airforce's F-4E, the German F-4F, and for the Spanish Air Force's F-5B and F-18 Hornets. On the basis of this experience we have submitted, together with Lockheed Martin, a proposal for the modernisation of the Egyptian Air Force's Phantoms.

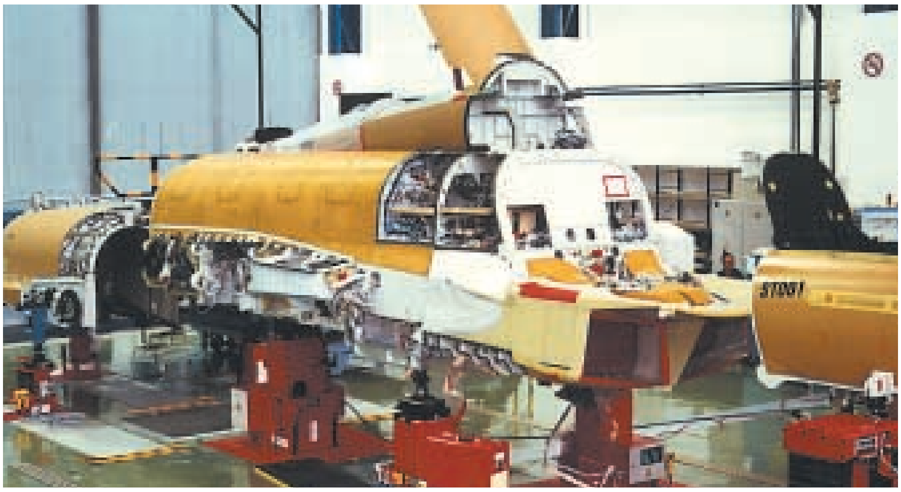
Aeronautics
continued

The Mako Programme and Future Projects
The Mako programme is aimed at developing a next-generation family of high-performance training and light combat aircraft. Thirteen risk and revenue sharing partners have now embarked on the definition phase based on a cooperation agreement with the UAE.

In November 2001, six countries mandated Alenia, BAE Systems, Dassault Aviation, EADS and Saab to jointly undertake the European Technology Acquisition Programme ("ETAP"). This programme will identify, develop and evaluate the technologies which will be required for flying weapons systems in the 2020s.

Other initiatives included an initial contract to develop a Global Positioning System (GPS)-controlled system for the more accurate targeting of drops from cargo aircraft at high altitudes, and the ground-testing of Autopol (automatic object recognition for police helicopters).

Regional Aircraft
2001 saw the full integration of the ATR business in which we hold a 50% interest while our Italian partner Finmeccanica holds the remaining 50%. The new structure will allow us to substantially lower operational and production costs to better meet the needs of the turbo-prop market. We are already seeing benefits with EBIT which turned positive in 2001.



Above: Tiger

Top left: ATR: Close up front view

Bottom left: TBM 700

Top right: Eurofighter assembly line

Twenty of the new ATR 42/72–500 family of aircraft were delivered in the course of the year. The down-turn of commercial aircraft business and the events of September 11th affected the turbo-prop aircraft less than the large airliners – being the low-cost alternative on short-haul operations. In addition to new aircraft ATR has also marketed 23 second-hand aircraft during last year and has provided extensive product support to its worldwide fleet of over 600 aircraft with more than 100 customers operating in 65 countries.

Light Aircraft

EADS Socata increased its revenues by 10% during 2001. This unit's activity is divided roughly 50/50 between Aerostructure and General Aviation, with the latter growing at a higher rate. The USA accounts for 60% of revenues, and we are developing our distributor network in order to increase penetration in this market where the TBM 700 aircraft has been very successful over the last years. During the year, we signed a significant agreement with Dassault, under which we became a risk-sharing partner in the FNX business jet programme.

Maintenance and Conversion

EADS Sogerma Services is initiating a facilities network for aircraft and components maintenance, spanning an area from Bordeaux over the Mediterranean and Gulf regions. The US business is developed through the Lake Charles maintenance operation facility which was opened in 2000. We strengthened our position as an independent full service provider by establishing partnerships with OEMs (original equipment manufacturers) and gaining access to a new generation of products. And we are developing our total component support business for a growing number of customers.

EADS Sogerma Services also designs and manufactures cabin interiors at the Rochefort plant. This Business Unit strengthened its military business in the C-130 market, with its capabilities in structural and avionics modernisation. As an example, the 'Blue Flash' programme of modernisation and systems upgrade for 40 Mirage fighter aircraft.

With the delivery of a first converted Airbus A310-300 in February 2001 and the first flight and certification of the first A300-600 in December 2001, EADS EFW confirmed its ability to convert any widebody Airbus to fully-functional freight specification and offers now all A300/A310 models with an OEM solution as freighter conversion.

Defence and Civil Systems

2001 has been a year of intensive integration, restructuring and strategic adaptation – a year of severe market challenges but also of important successes which has provided our businesses with a solid basis for growth and profitability in the years ahead.

- **MBDA created – the world's second largest missile systems company**
- **Strengthening of Systems and Defence Electronics activities through partnerships and contracts, e.g. in the UAV field**
- **Creation of a dedicated "Services" unit, concentrating particularly on outsourced government services**
- **Strengthening of secured telecom business through acquisition of UK encryption leader (Cogent)**

With our unique portfolio of Intelligence, Surveillance, Command and Control Systems, secure communication networks, missile systems and services we are very well positioned to address the new demands in the post 11th September security and defence markets. Defence and Civil Systems (DCS) Division recorded revenues of €3.3 billion, an increase of 15% compared with 2000 (€2.9 billion). This growth was largely due to new activities in the telecommunications sector. With an order intake of €3.1 billion, our current order book covers business activity for more than two years.

A corporate structure to match our customers' requirements

We have structured Defence and Civil Systems into four business areas in order to achieve optimal cost conditions for the anticipated build-up of mass-produced large-scale programmes such as air-to-ground cruise missiles, surface-to-air anti-missile missiles and electronic systems designed for Eurofighter. The four transnational business areas are:

- Missile systems – offering the world's largest range of tactical missiles within the newly-created MBDA and EADS LFK.
- Systems and Defence Electronics (S&DE) – covering surveillance and reconnaissance systems, command and control systems, radar technology, avionics and electronic warfare products.
- EADS Telecom – providing state of the art communication technology for defence and security applications.
- EADS Services – supplying test solutions, support and engineering activities for armed forces and government services, acting where required as an operator.

This customer-driven approach has already allowed us to achieve transnational synergies and to contribute significantly to the harmonisation of European government purchases.

Milas missile

DEFENCE AND CIVIL SYSTEMS DIVISION

millions of euros	2001	2000**	variation
REVENUES	**3,345**	2,909	**+15%**
EBIT*	**(79)**	(110)	–
ORDER INTAKE	**3,081**	3,857	**–20%**
ORDER BOOK	**9,094**	9,722	**–6%**

* pre-goodwill amortisation and exceptionals.
** pro forma

Thomas Enders
Executive Vice President
Head of Defence and Civil Systems Division
EADS Executive Committee Member

€3.3bn
revenues

€9.1bn
order book

We also anticipate that the new structure will enable us to broaden our markets by establishing transatlantic programmes closely related to NATO's Defence Capability Initiative, and to meet our profitability objectives in 2002 and beyond.

A position of strength in our key markets
The integration and reorganisation of our activities has strengthened our competitive position. Not only are we now a truly global player in the field of missile systems; we are also the number three in Europe for systems and defence electronics. We have continued to develop as one of the leaders in secure telecommunications for military and public customers. Our Business Unit dedicated to services has been geared up to meet the increasing demand of our national customers for outsourced military facilities.

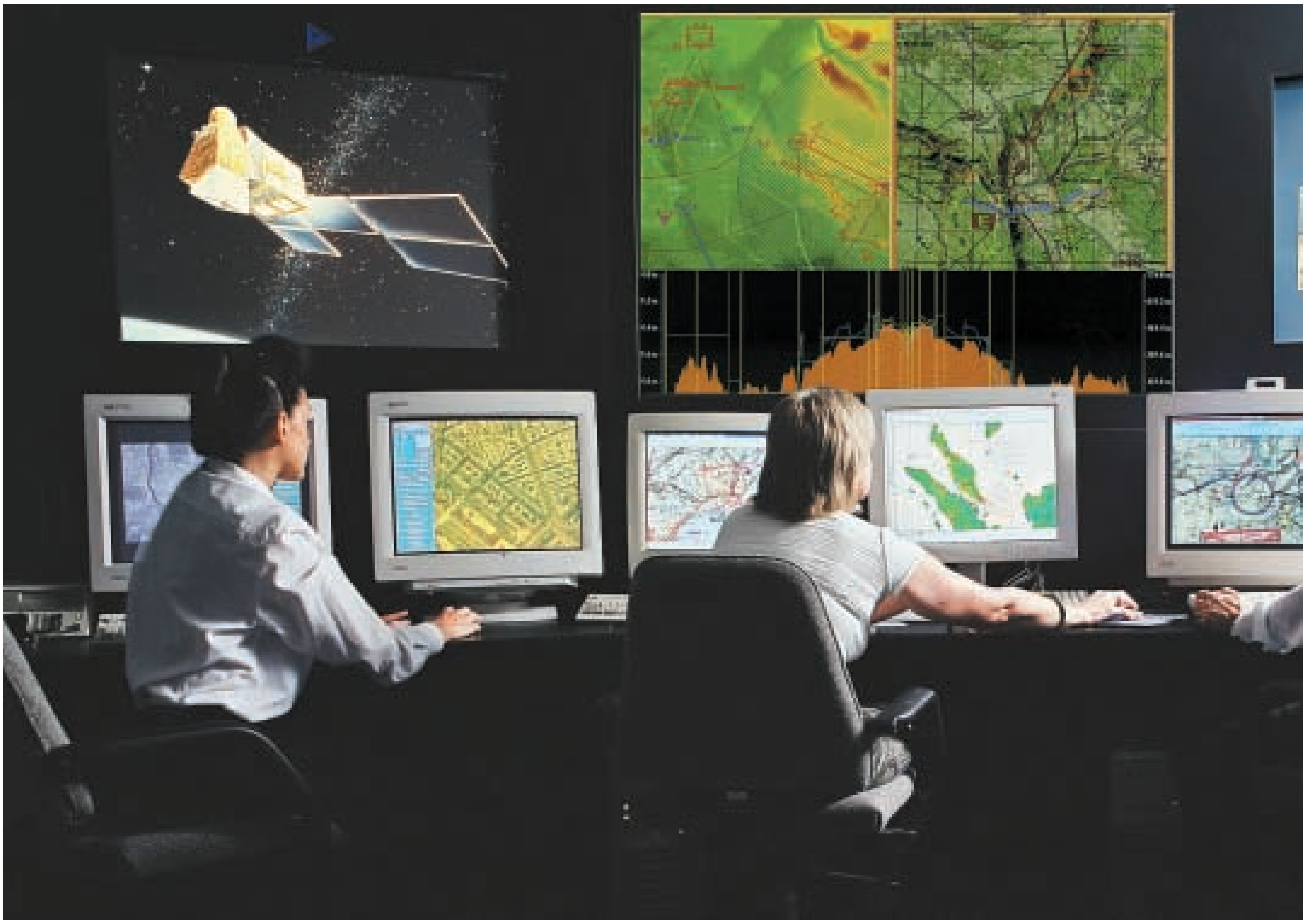
EADS has recognised from the very beginning the importance of synergies across the various divisions to develop new business opportunities in defence and security, especially for more demanding customers looking for systems solutions. Initiatives have been launched to coordinate and integrate defence and security strategy globally, and across business boundaries. Since 11th September, these have been focusing on homeland security issues (including ballistic missile defence), commercial air transport security – in cooperation with Airbus – and mission aircraft for intelligence and surveillance, all areas where DCS has a key role to play.

Missile Systems
An important development was the merger in December of Matra BAe Dynamics, Aerospatiale Matra Missiles and the missile activities of Alenia Marconi Systems to form MBDA – the largest tactical missile systems company in Europe, and the second-largest in the world.

Through MBDA, we offer a highly competitive product portfolio including critical subsystems such as warheads, seekers, propulsion, proximity fuses and guidance systems. MBDA starts life with annual revenues of nearly €2 billion, a forward order book of approximately €12 billion, customers in 70 countries and 10,000 employees at 12 main sites in Great Britain, France, Italy and the USA. MBDA also has strategic alliances with the German missile industry (including LFK, an EADS and MBDA common company) as well as in Spain, with the creation of a new missile company named Inmize (owned by MBDA, Indra, Izar and EADS CASA).

Rubis (digital radio network system)

Defence and Civil Systems
continued



Systems and Defence Electronics
This business was restructured and integrated in June 2001, to focus on four areas: Airborne Systems; Intelligence, Surveillance and Reconnaissance (ISR) Systems; Command, Control, Communication and Intelligence Systems; and Naval and Ground Systems. Additionally, the unit Business Development and International secures S&DE's competitive position in the global markets.

This business now has the critical mass to achieve profitable growth at international level. It has become the key European player in Unmanned Aerial Vehicles (UAVs) covering all types from light tactical to strategic long range, and is working on the EuroHawk in a joint project with Northrop Grumman.

Other contracts S&DE has been awarded include core sensor and combat management systems for the German K130 corvette, the Eurofighter Defensive Aids Subsystem (under a €700 million contract) and the Sostar X project to develop a synthetic-aperture radar for NATO's airborne ground reconnaissance. S&DE's position in the growth area of naval combat systems was confirmed by the contract as a system integrator for Finland's Squadron 2000 programme.

Above: From information to decision

Top left: AS30 laser

Bottom left: Multimode radar TRS-3D

Top right: Eurofighter with Meteor

Telecommunications
This EADS Telecom Business Unit was created in March 2001, and covers all our activities in the areas of civil and defence telecommunications. The partnership between EADS and Nortel Networks in secured telecommunications has been restructured in EADS Defence and Security Networks (EDSN, owned 59% by EADS and 41% by Nortel). Moreover, the EADS Telecom Business Unit has been enlarged with the transfer of the UK Cogent Defence Systems, the enterprise business activities of Matra Nortel Communications, Dasa Com Networks, the US company Intecom, the French companies Matranet and Sycomore.

In the Public Safety field we won major contracts in France, Spain and Mexico with the Tetrapol technology; in the defence market, we were contracted to supply over €120 million of communications equipment to the UK MOD (Cormoran contract). In France, the Rubis network for the Gendarmerie now covers all 97 administrative regions. It is the largest professional digital radio network in the world, based on the Tetrapol technology retained for 59 networks in 28 countries.

Other successes included a contract with our US partner SAIC to equip the US Army's combat training centre, and the choice of the Succession/6500 communication system by the University of Rennes, France, as a result of which we shall be setting the largest telephony network based on Internet Protocol (IP) ever created.

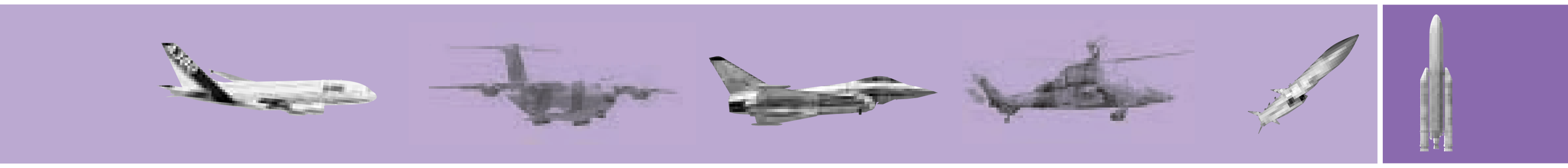
Services
The Services Business Unit was created in January 2001 to serve the growing global market in functions like infrastructure support and operations, equipment support and training, which are being increasingly outsourced by governments. Our activities are centred on automatic testing, systems engineering, engineering solutions and military and other services.

In the domain of outsourced services, we are well positioned in logistics, telecommunication and training for the French, German and Spanish armies.

Outlook
With a strong order book of €9.1 billion, the positive effects of a reorganised and more efficient business and the transition from development to production of our major programs, the profitability of DCS will increase significantly from 2002 and thereafter.

Space

Despite a particularly difficult environment, EADS subsidiaries continued to prove their technical expertise and competitiveness, for a wide range of clients which includes national governments, space agencies in Europe as well as commercial industry customers.



- **Ariane 4 gains new reliability record**
- **Step 3 of the Ariane 5 programme approved by the ESA Ministerial Conference**
- **Skynet 4 successfully accomplished**
- **Early 2002: UK MoD decides on Skynet 5, Astrium to supply satellites**

Ariane 5

It testifies to the high quality of the EADS Space Division that in a challenging environment we were able to maintain our revenue levels close to those of 2000. At €1.3 billion, the order intake for the year was, as anticipated, lower than the €3 billion for 2000, which came from a particularly high number of orders in telecom satellite and because of the M51 ballistic missiles development programme. Nevertheless, at the end of the year, the order book covered future activity well into 2003.

EADS is today the largest space systems manufacturing company in Europe, and the third largest in the world.

Through our subsidiaries Astrium (controlled 75% by EADS and 25% by BAE Systems), EADS Launch Vehicles (EADS LV) and our Business Unit EADS CASA Espacio, we design, develop and manufacture satellites, orbital infrastructures, launchers and ballistic missiles.

We provide launch services through our shareholdings in Arianespace, Starsem and Eurockot and services related to telecommunications and earth observation satellites through our Business Unit EADS Space Services and through joint ventures. Finally, we are active in the field of optronics and space equipment including earth and star sensors (through EADS Sodern) and laser technologies (through EADS Cilas).

During the year, we took steps to strengthen the efficiency of our space activities in order to improve profitability in a difficult market environment characterised by fierce competition and industry overcapacity.

We launched actions driven by:
- an improved focus on customer satisfaction
- cost reduction by strengthening integration
- streamline of functions to improve management efficiency

SPACE DIVISION

millions of euros	2001	2000**	variation
REVENUES	**2,439**	2,535	**–4%**
EBIT*	**(222)**	67	**–**
ORDER INTAKE	**1,327**	3,024	**–56%**
ORDER BOOK	**3,796**	4,826	**–21%**

* pre-goodwill amortisation and exceptionals.
** pro forma

François Auque
Executive Vice President
Head of Space Division
EADS Executive Committee Member

€2.4bn
revenues

€3.8bn
order book

Automated Transfer Vehicle (ATV) for the International Space Station (ISS)

A major element in the programme is the decision to implement in 2002 an improvement plan for satellite activities and to strengthen the cooperation between Astrium and EADS LV in launcher and orbital infrastructure activities. This redefined focus should allow the Astrium satellite business to meet its financial targets in the coming years, and will contribute to the cost reduction targets of the Ariane 5 launcher which will allow us to remain competitive and profitable in the market place.

Ariane

Of the 12 commercial launches that took place world-wide in 2001, Ariane was responsible for eight, six with Ariane 4 and two with Ariane 5.

In July 2001, during the second launch in the year of Ariane 5, an upper stage propulsion problem was encountered. Subsequently, a detailed investigation was undertaken to identify the source of the problem. The enquiry board has now reached its conclusions and successful flight operations resumed successfully on 28th February 2002 with the launch of the Astrium-built earth observation giant, Envisat.

In November 2001, the European Space Agency (ESA) ministerial conference in Edinburgh confirmed its commitment to Step 3 of the Ariane 5 programme, which will allow Ariane to carry up to 12 tons into geotransfer orbit. The Edinburgh conference also allocated substantial budgets to the Ariane 5 Research and Technology Accompaniment (ARTA) programme, and to the financing of Kourou infrastructure. All these decisions are very positive steps in reinforcing Ariane 5's competitiveness. To this end, we have begun to restructure EADS launcher activities into a single company which will take responsibility for system prime contracting of Ariane development and production.

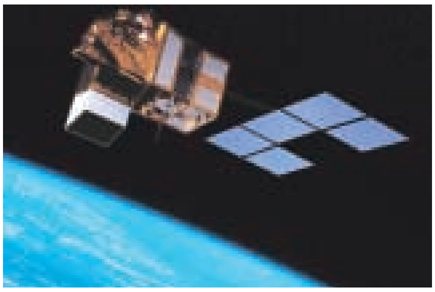
The International Space Station (ISS)

EADS is playing a key role in the development and utilisation of the ISS, the world's most ambitious space project. EADS LV is prime contractor for the development phase of the Automated Transfer Vehicle, an unmanned transport system for regular delivery of fuel and other supplies to the ISS, which will also provide reboost capability and a waste disposal function. Astrium is prime system provider for the main European contribution, Columbus, a manned module for zero-gravity research.

Other launcher activities

Eurockot Launch Services, a joint venture owned by Astrium (51%) and the Russian Khrunichev space technology companies, won contracts to launch two micro-satellites, the Canadian MOST space telescope and the Czech Mimosa.

Space
continued

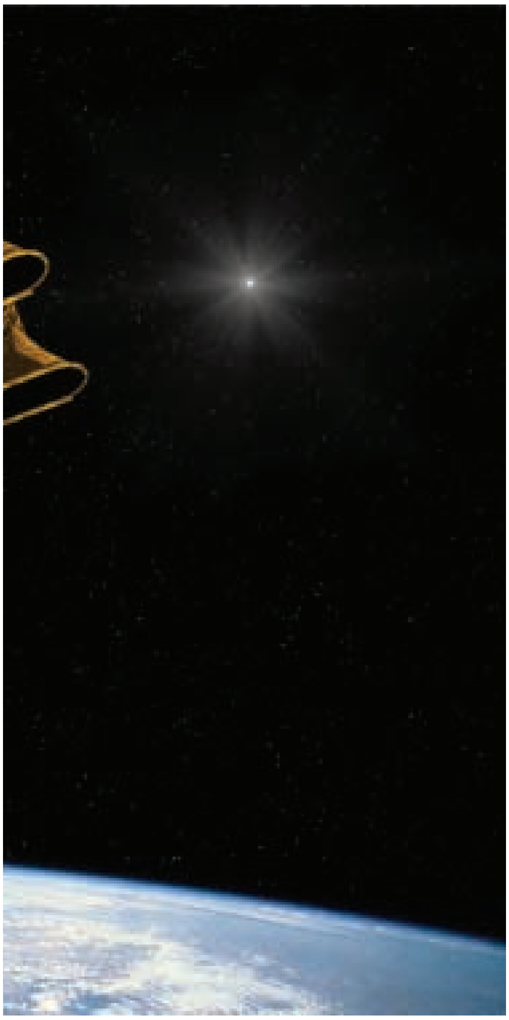


Starsem, a joint venture owned by EADS, Arianespace and Russian partners, has worked to provide all necessary information to ESA, in view of a coming decision to have the Soyuz launcher operated from Kourou.

Defence
The development programme for the new generation submarine-based M51 missile moved forward successfully, and a test flight of the M4/M45 intercontinental ballistic missile in April 2001 was successfully conducted.

Astrium and EADS LV have been selected by NATO as members of a transatlantic consortium to carry out a Theatre Missile Defence feasibility study.

Skynet 4 and 5
The last Skynet 4 spacecraft – which carries UK military communications – was launched from Kourou in February 2001. In February 2002, following the UK MoD decision, Astrium will supply the satellite system for the next generation programme Skynet 5, worth in total £2 billion, under contract to Paradigm SPC (jointly owned by EADS and BAE Systems).



Above: Spot 5

Top left: Telecommunication satellite in integration

Bottom left: Helios II

Top right: Ariane 5 upper stage

Telecommunications
Astrium was chosen by Eutelsat to provide the W3A communications satellite which will be launched in mid-2003, and will also supply applications including business communications, internet-based services and television transmission to a zone covering Europe and Africa from 7° East.

Navigation
At its ministerial conference in Edinburgh, the ESA gave its approval for the Galileo programme – the global satellite navigation system proposed jointly by the European Commission and ESA – with a value of more than €500 million. Final go-ahead was given from the Commission's transport ministers in March 2002. As a 50% shareholder in Galileo Industries S.A., Astrium is playing a crucial role in the design and development of Galileo, which is scheduled to be operational by 2008.

Earth observation
On 20 November 2001, for the first time ever, a data link between satellites was established using a laser beam as signal carrier. The Astrium-primed Silex (Semiconductor-laser Inter-satellite Link Experiment) system consists of two terminals, one on board ESA's Artemis communications satellite, the other on the CNES Earth observation satellite Spot 4. Through the laser data link, high-definition video images from Spot 4 can be transmitted in real time via Artemis to the image processing centre.

Leadership in Science
Prestigious acknowledgement of Astrium's expertise came in the form of the award to the company by the ESA for the manufacture of the world's largest silicon carbide space imagery instrument, the Herschel space telescope, which is due for launch in 2007.

Outlook
2002 will be focused on the reorganisation of the Division, with the aim of reinforcing customer satisfaction and reducing costs through the streamlining of functions and improvements to industrial organisation. These challenges will be eased by the two recent successes in early 2002: Skynet 5 programme and Ariane 5 successfully launched Envisat, paving the way for the first cryogenic upper stage flight in the summer.

EADS International

EADS International, the corporate entity in charge of international development of the Group, is now fully operational as a single and multicultural team completely integrated and entirely dedicated to winning business.

NH90 contract signing for the Nordic countries

Airbus A380 in the colours of Emirates Airlines, which ordered 22 aircraft and ten options

EADS International is a key partner in the campaigns that build the success of EADS.

An Integrated Approach
Operating in close cooperation with the Business Units in a task-force approach, EADS International provides them with a wide range of high-level services in the field of exports (including financial engineering, off-sets, industrial co-operation, package-deal expertise and focused countries analysis) These services are key to successful business approaches. In addition, EADS International acts as a corporate catalyst, playing on the strengths and size of the whole Group to support each Business Unit's marketing approach.

With the support of its extensive international network representative offices and its team of international market experts, EADS International has managed to create a constructive team spirit with BUs, whatever their size. It is now a recognised partner whose task-force approach has been proven efficient through achieved results.

2001's Export Successes
EADS International was instrumental in the campaigns that helped to create the success of EADS in 2001. For example, Eurocopter performed extremely well this year with EADS International supporting its work in the Nordic Countries for the NSHP/NH-90 campaign as well as in the first export of the Tiger with the Australian Government official decision to acquire 22 helicopters.

International teams also participated in Group achievements including Airbus in Australia, Qatar and Taiwan and the official Spanish Hispasat decision in favour of Astrium's Amazonas Telecommunications satellite.

Its actions were also decisive in other campaigns such as EADS CASA in the UAE, EADS Sogerma Services in Venezuela and Taiwan as well as Systems and Defence Electronics in Estonia, Singapore and Mexico.

New Challenges
EADS strategy is today focused on balancing its civilian and governmental activities, and EADS International is well-equipped to support programmes that are becoming more important than ever, like UAVs, C3I and C4ISR systems, A330-MRTT and the A400M as well as Global Air Defence with VL Mica and the Aster family.

At the same time, the team will continue to support the Group's civilian activities including Astrium's Telecommunications satellites, ATR aircraft or Airbus in strategic export campaigns.

EADS International is thus in the front line to cope with these new challenges where international markets are crucial to success.

Jean-Paul Gut
Executive Vice President
Head of EADS International
EADS Executive Committee Member

EADS CASA signed a contract with Poland for the sale of eight C-295

External offices

Australia Brazil Canada Chile
China Croatia Czech Republic
Egypt Finland Greece India
Indonesia Italy Japan Korea
Kuwait Malaysia Mexico Poland
Portugal Russia Saudi Arabia
Singapore Slovenia South Africa
Spain Taiwan Thailand Turkey
United Arab Emirates United Kingdom

Australia signed the contract of sale for 22 Tiger

Headquarters Organisation

The EADS Headquarters and its functions are located in Amsterdam and its Head Offices in Madrid, Munich and Paris.

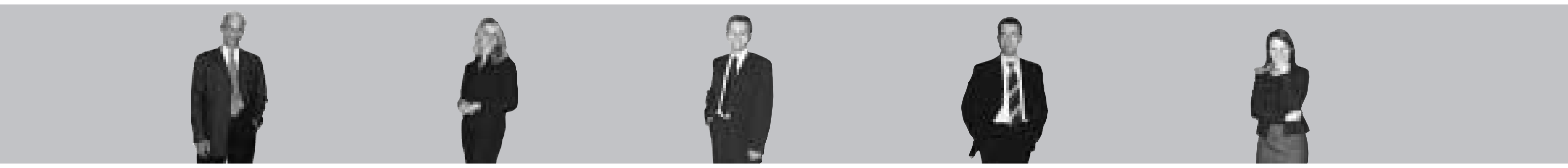
Corporate Functions

CHIEF EXECUTIVE OFFICER **Philippe Camus**		CHIEF EXECUTIVE OFFICER **Rainer Hertrich**
GENERAL SECRETARY **Pierre-Henri Ricaud**		HUMAN RESOURCES **Jussi Itävuori**
COMMUNICATIONS **Christian Poppe**		LEGAL AFFAIRS **Eric Thomas**
PURCHASING **Hans-Erich Mundt**		POLITICAL AFFAIRS **Wolf-Peter Denker** **Carlos Grandal** **Denis Verret**
STRATEGIC COORDINATION **Jean-Louis Gergorin**	EADS INTERNATIONAL **Jean-Paul Gut**	CHIEF FINANCIAL OFFICER **Axel Arendt**
STRATEGY AND PLANNING **Reinhold Lutz**		CONTROLLING **Hans-Peter Ring**
MERGERS AND ACQUISITIONS **Marwan Lahoud**		FINANCE TREASURY **Gérard Adsuar**
INDUSTRIAL, RESEARCH AND TECHNOLOGY, QUALITY **Jean-Marc Thomas**		INVESTOR RELATIONS **Marc Paganini**
		ACCOUNTING/TAX **Joachim Feyel**
		INFORMATION MANAGEMENT **Andreas Groth**

Members of the Executive Committee

After the merger in 2000, EADS undertook an intensive study on the definition of the role of its Headquarters as a "Strategic Architect". The Headquarters is in charge of Finance, Merger and Acquisitions, Strategy and Planning for the overall Group development, coordinating the businesses and creating the synergies as well as providing support for Legal Affairs, Human Resources and other essential central functions. With the new definition of its role, a restructuring of the Headquarters has been initiated, resulting in headcount reduction from more than 1,000 people in 2000 to a target of around 540 in 2003 through early retirement plans, outsourcing or transfers to EADS Business Units.

Human Resources



Employees year-end 2001

EADS Group	102,967
Airbus	45,543
Military Transport Aircraft	3,573
Aeronautics	24,230
Defence and Civil Systems	17,650
Space	10,414
Headquarters and research centres	1,557

Our employees – a key factor for future success

Surveys indicate that the new company has already inherited the reputation of its precursor companies as being among the most attractive employers in its various countries. EADS is regarded as one of the top employers in Europe, among both engineers and young managers.

Entrepreneurial awareness

In order to foster entrepreneurial awareness, employees have been offered a second opportunity to participate in an employee share ownership plan. The response has been extremely positive and the shares were over-subscribed.

Throughout EADS there is now a remuneration structure for top managers that rewards personal performance and is also linked to company earnings and increased corporate value.

International career development opportunities

A Group-wide system for identifying and promoting future managers has been introduced, and an internal job market enables employees to apply for posts on offer – either in their own country or abroad. Development of EADS executives is promoted through the Corporate Business Academy, which focuses on both the provision of training and on the promotion of a common corporate culture.

Flexibility at work – the benefits

11th September represented an unprecedented challenge. Our existing emphasis on capacity flexibility is now bearing fruit, and has so far enabled us to avoid compulsory redundancies or high restructuring costs – thus retaining valuable expertise within the company for the anticipated recovery.

European Works Council

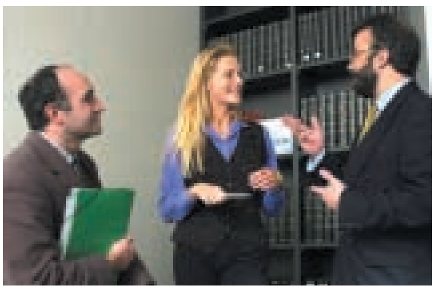
The European Works Council had to pass its first tests during 2001. In addition to the bodies representing the entire workforce, international committees for sub-groups have been set up, offering a common platform for discussion of the challenges we face and of the company's future plans – both of which are usually international in nature.

Jussi Itävuori
Group Vice President
Human Resources

Employees by country

France	40.4%
Germany	37.3%
UK	11.4%
Spain	7.7%
Americas	2.1%
Rest of the World	1.1%

Working together: Engine maintenance Test Cell



An intercultural working atmosphere is part of EADS culture

European Works Council of EADS

Corporate and Social Responsibility

EADS is committed to maintaining and defending irreproachable ethical standards in the Group's business relationships both inside and outside the company. These standards are laid down in our Ethics Code, as well as in the Insider Trading Rules, which provide general guidelines for behaviour towards internal and external parties alike.

EADS is an attractive industrial employer: Recruiting event during Le Bourget Airshow

The Environment
We accept our responsibilities towards the environment and have implemented a Corporate Policy for Health, Safety and the Environment to ensure that we comply with the laws and regulations of each country in which we operate, as well as investing in research and development designed to improve our ability to meet or exceed such regulatory standards.
We actively support the participation of employees in pursuing new products and technologies that promote resource conservation, facilitate recycling and preserve the natural environment as much as possible.

Customers' rights and international trading
To defend and to enhance the confidence of its customers in the Group is one of our prime objectives. We can only achieve this through the strictest respect for the customers' rights.

As suppliers of goods and services to governments and governmental agencies, we comply with the rules and procedures for acquisitions in force in each customer country. National or international export and customs laws may regulate where, when and how we can sell products, services and technology, or exchange information. We require each employee and all Business Units to comply fully with such laws.

Respect for employees
We guarantee to all employees respect for their dignity, their privacy, their safety at work and their rights. This applies to all employees regardless of age, disability, national origin, sex, religion or opinion; and we expect the same high standards from our suppliers and business partners.

Shareholders' rights and expectations
Our relationships with shareholders are based on the protection of their interests and on their equal access to relevant, accurate and timely information.
As a Dutch listed company in France, Spain and Germany, we fully comply with the laws and regulations applicable in each country.

Conflicts of interest
We have no "privileged or special" relationships with business partners or suppliers, which would not be justified on objective economic or technical grounds. Relationships between employees and such parties must be governed by transparency, in particular with respect to purchase contacts and sales relationships. The acceptance or granting of gifts or other advantages is only authorised under strict conditions of mandatory disclosure and the approval of management.

Right: Music and the arts are at home at EADS

Far right: Open doors at EADS Military Aircraft in Manching near Munich. 50,000 visitors joined the "Family-day"

Astrium engineers working on the new European weather satellite Metop

Dealing in EADS shares
We encourage employees to hold EADS shares. Employees may freely carry out transactions in Group shares where such operations comply with the relevant applicable law and with the provisions laid down in the EADS Insider Trading Rules.

Some EADS employees have access by virtue of their duties to privileged information. In order to comply with the prohibitions provided by the national law or national stock exchange market authorities, such employees are legally forbidden to provide third parties with such information, or to conduct financial operations directly or indirectly except during specific periods, and subject to the approval of the Chief Financial Officer acting as Compliance Officer. Any beneficiary of privileged information is legally subject to the duty of discretion; any breach of such legal duty being a criminal offence.

Behaving as good corporate citizens
As one of the largest European companies, EADS is conscious of its duties to the cultural, educational and social environment in each country. We encourage active and responsible participation to community events and educational institutions in order to promote cooperation and development provided that such participation does not contravene EADS policies or interfere with employees' duties. The EADS response to big catastrophes has included the donation of significant amounts to support victims of the 11th September terrorist attacks and their families, and to the victims of the disaster in Toulouse, which occurred on the 21st September.

Travelling on hydrofoils, the Hydroptère is a revolutionary seacraft design sponsored by EADS

Corporate Governance

The Company is governed by Dutch law and its Articles of Association. The Company has a single-tier structure – the Board of Directors – combining both executive and non-executive members. The Board is the highest decision-making body besides the shareholders' meeting.

The Board of Directors is responsible for the affairs of the Company. The role of the Board of Directors is to ensure that the Company is operated to maximise shareholder value in accordance to the law and the established rules of Corporate Governance, whilst maintaining good relationships with the Company's employees and customers.

The Board of Directors comprises eleven members, appointed and removed by the shareholders' meeting. The Board of Directors has an equal number of Directors proposed by DaimlerChrysler AG and by SOGEADE[1] respectively and one Director proposed by SEPI[2], plus two independent Directors who have no connection with the DaimlerChrysler, SOGEPA or Lagardère Groups or the French State. One is nominated by DaimlerChrysler and one is nominated by SOGEADE.

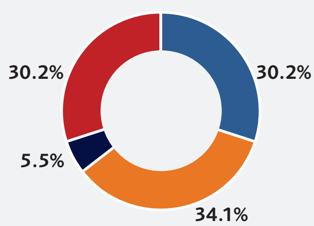
The Board of Directors has appointed from among its members the two Chief Executive Officers (CEOs) responsible for the day-to-day management of the Company and has designated its two Chairmen to ensure the smooth functioning of the Board of Directors and to support the Chief Executive Officers of the Company with regard to top-level strategic discussions with outside partners.

Beyond applicable Dutch legal constraints, the Board of Directors has also adopted its own internal rules to provide modern Corporate Governance principles. In particular the Board of Directors has formed two standing committees from its members:

- The Audit Committee, which makes recommendations to the Board of Directors on the appointment of auditors, the approval of the annual financial statements and the interim accounts, and monitors the adequacy of EADS's internal controls, accounting policies and financial reporting. The Audit Committee meets at least twice a year. It is chaired by Manfred Bischoff and Jean-Luc Lagardère and also includes Eckhard Cordes and Louis Gallois.
- The Personnel Committee, which makes recommendations to the Board of Directors regarding appointments to the Executive Committee, remuneration strategies and long-term remuneration plans and decides the service contracts and other contractual matters in relation to the Board of Directors and Executive Committee members. The Personnel Committee meets at least twice a year. It is chaired by Manfred Bischoff and Jean-Luc Lagardère and also includes Philippe Camus, Eckhard Cordes, Louis Gallois and Rainer Hertrich.

Topics discussed during the Board meetings relate mainly to EADS strategy, major business issues, major investment projects, and financial results and forecasts.

Shareholder structure as of 31 December 2001



- 30.2% DaimlerChrysler
- 30.2% SOGEADE[1]
- 5.5% SEPI[2]
- 34.1% Public, including EADS employees and about 3% held by DaimlerChrysler and the French State

[1] Lagardère SCA together with French financial institutions and SOGEPA (French state holding company).
[2] Spanish state holding company.

Members of the Board of Directors

Manfred Bischoff
Member of the Management Board of DaimlerChrysler AG
Chairman of EADS Board of Directors

Philippe Camus
EADS Chief Executive Officer

Axel Arendt
EADS Chief Financial Officer

Pedro Ferreras
Lawyer
SEPI Representative

Jean-René Fourtou
Vice President of Aventis S.A.

Michael Rogowski
Chairman of the Supervisory Board of J.M.Voith AG
President of the Federation of German Industry

Jean-Luc Lagardère
General and Managing Partner of Lagardère SCA
Chairman of EADS Board of Directors

Rainer Hertrich
EADS Chief Executive Officer

Eckhard Cordes
Member of the Management Board of DaimlerChrysler AG

Noël Forgeard
Airbus President and Chief Executive Officer

Louis Gallois
President of SNCF

Analysis of the Financial Situation

2001 Audited Consolidated Financial Statements and 2000 Unaudited Pro-Forma Consolidated Financial Statements

INTRODUCTION

The following discussion is based upon the audited consolidated financial statements of EADS for 2001 (the "2001 Financial Statements") and the unaudited pro-forma consolidated financial statements of EADS for 2000 (the "2000 Pro-Forma Financial Statements").

The 2001 Financial Statements were prepared in accordance with the accounting standards issued by the International Accounting Standards Board ("IASB") and the interpretations issued by the Standing Interpretations Committee of the IASB. The 2000 Pro-Forma Financial Statements were prepared on the basis of the following:

- the consolidated financial statements of EADS for 2000, prepared under IAS;
- the pro-forma effects of the 2000 transactions combining Aerospatiale Matra, Dasa and Casa (hereinafter, the "EADS Merger"); and
- the pro-forma financial statements of Dasa and the pro-forma financial statements of Casa for the period in 2000 prior to the creation of EADS on 10th July as reconciled to IAS as adopted by EADS and net of the cash amounts distributed by Dasa and Casa to their respective shareholders prior to the creation of EADS.

The unaudited pro-forma consolidated financial information of EADS for 2000 included herein is provided for illustrative purposes only and does not purport to represent what the financial position, results of operations or cash flows of EADS would actually have been if the EADS Merger had occurred as of the dates indicated or to project the consolidated financial position, results of operations, or cash flows for any future date or period.

The 2000 Pro-Forma Financial Statements refer to the scope of consolidation that resulted from the EADS Merger in 2000; as such, they do not reflect changes in consolidated entities or accounting methods that occurred in 2001. Consequently, the scope of consolidation referred to in the 2000 Pro-Forma Financial Statements differs significantly from that referred to in the 2001 Financial Statements.

ACCOUNTING CONSIDERATIONS

CHANGES IN CONSOLIDATED ENTITIES AND MINORITY INTERESTS

Formation of Airbus SAS: Airbus SAS, the newly formed company integrating all design, manufacturing and marketing activities of Airbus, was established in July 2001 following the acquisition by EADS of Airbus UK and of the 20% stake in Airbus GIE held by BAE Systems (the "Airbus Combination"). As consideration for this transaction and its subscription to a €754 million capital increase, BAE Systems received 20% of the share capital of Airbus SAS through a capital increase while EADS' interest was diluted to 80%.

EADS has fully consolidated Airbus since 1st January 2001, in light of the effective control it has exercised, by agreement with BAE Systems, over the Airbus assets and operations since that date.

Formation of MBDA: On 18th December 2001, EADS, BAE Systems and Finmeccanica formed MBDA, which combines the businesses of MBD and of AMM, and the missile systems activities of AMS. EADS and BAE Systems each hold a 37.5% stake in MBDA, with Finmeccanica holding the remaining 25%. Pursuant to the shareholder agreements relating to the MBDA group, EADS and BAE Systems together exercise certain controlling rights over MBDA through MBDA Holdings, including the right of MBDA Holdings to appoint MBDA's CEO, COO-Operations and CFO.

In 2001, the consolidated statement of income reflects a 50% consolidation of MBD and a full consolidation of AMM through to the formation of MBDA on 18th December. From 18th December, as shown in the 2001 consolidated balance sheet, EADS has been proportionally consolidating 50% of MBDA within the Defence and Civil Systems Division, in line with its ability to influence operations, with Finmeccanica's holding reflected as a 12.5% minority interest.

EDSN: Throughout 2001, EADS and Nortel Networks completed the reorganisation of their military telecommunication operations within EDSN. Specifically (i) EADS and Nortel Networks contributed to EDSN the IP-capable switching activities of their joint venture MNC on 1st May; (ii) EDSN purchased a 19.9% share of MNCD, which operates the distribution channel related to the IP-capable switching activities, on 30th September; (iii) EADS contributed VEKN, a tactical communication networks business, to EDSN on 30th November; and (iv) Nortel Networks sold Cogent Defence Systems to EDSN on 1st December. As a result, Nortel Networks' minority interest decreased from 45% to 40.9%, while EADS fully consolidates EDSN within the Defence and Civil Systems Division.

MNC and NNG: Mirroring the repositioning of military telecommunication activities within EDSN, and the disengagement of EADS' significant influence in MNC and NNG in response to the decreasing strategic importance of the civil telecommunications businesses to EADS, EADS has been accounting for MNC and NNG (of which it still holds 45% and 42%, respectively) as non-consolidated investments since 1st October 2001. The two companies, whose share capital was held jointly with Nortel Networks, were consolidated under the equity method prior to such date.

Acquisition of Tesat Spacecom: In 2001, Astrium, which is 75% proportionately consolidated by EADS, acquired Tesat Spacecom GmbH & Co. KG, the satellite communications-payload business of Bosch. Astrium now fully consolidates Tesat Spacecom.

Dornier GmbH: Following the exercise by Dornier family members of a put option on Dornier GmbH shares, DADC, a fully consolidated subsidiary of EADS, increased its interest in Dornier GmbH from 58.4% to 75.9%. While EADS has fully consolidated Dornier GmbH in both of the periods under discussion, the minority interest decreased from 41.6% to 24.1%.

DILUTION GAINS

The 2001 transactions leading to the formation of Airbus SAS and MBDA resulted in a dilution of EADS' economic ownership in Airbus, MBD and AMM. These transactions required an assessment of the contributed businesses, whose market value, estimated in the course of negotiations, exceeded the carrying value of their equity for EADS. Consequently, EADS recognised dilution gains of €2,537 million for a 20% stake in Airbus, and of €257 million, net of transaction related charges, for 12.5% of MBD and 62.5% of AMM. These dilution gains are reported in other income and are deemed exceptionals by EADS. See "Results of Operations – Use of EBIT and Net Income Pre-Goodwill Amortisation and Exceptionals".

FAIR VALUE ADJUSTMENTS

In the process of the Airbus Combination, the acquisition of Airbus UK was recorded using the purchase method of accounting. Accordingly, the book value of certain items, mostly property, plant and equipment and inventories, was adjusted by an aggregate €319 million, net of taxes, to reflect their respective fair market values (the "Fair Value Adjustments") and a deferred tax liability of €137 was recorded. Depending on the nature of the asset, depreciation of Fair Value Adjustments is either recorded when the underlying assets are consumed or is scheduled over their useful life, and gives right to a related reduction of deferred tax liabilities.

The excess of the purchase price of Airbus UK (including the 20% share in Airbus GIE) over the fair value of its net assets was recorded as goodwill and amounted to €4,024 million. Amortisation of goodwill is scheduled over 20 years, and is mostly not tax deductible.

IMPAIRMENT OF ASSETS

When, in the view of Management, a triggering event such as a material market event or a significant change in forecasts or assumptions occurs, EADS performs an impairment test on the net assets of the business or businesses likely to be affected. Impairment tests are typically performed using the discounted cash flow method.

In 2001, EADS conducted impairment tests on the goodwill of businesses in the Airbus Division, the Space Division and the Defence and Civil Systems Division. In the Defence and Civil Systems Division, recognition of a restrictive government defence spending policy led EADS to impair the goodwill of MS&I, a company within the Defence Electronics business (€240 million) and LFK (€170 million). Reduced market prospects for CAD/CAM software services led EADS to impair the goodwill of Matra Datavision by €170 million. In the Space Division, acknowledgement of the contraction in the commercial telecommunications market, coupled with long-term overcapacity in the satellite business requiring substantial cost reductions and streamlining, resulted in a €210 million impairment to the Astrium goodwill. An impairment test on Airbus, triggered by the events of 11th September and subsequent developments, confirmed the value of the goodwill of Airbus.

RESEARCH AND DEVELOPMENT EXPENSES

EADS recognises internally-financed research and development costs as an expense in the year incurred. When research and development expenses are financed in whole or in part by the customer, the externally-financed portion is recognised as revenues. While EADS' internally-financed research and development costs are reflected in the income statement under research and development, the costs of externally-financed research and development are reflected in the income statement under cost of sales.

The accounting treatment for research and development costs adopted by EADS does not conform to IAS, which the Company otherwise follows in the preparation of its consolidated financial statements. IAS requires that development costs be capitalised as an intangible asset in the period in which incurred if certain criteria for asset recognition are met. This departure from IAS makes EADS more directly comparable with US companies in the same sector, and reflects a more conservative approach towards the accounting treatment of research and development costs than that required by IAS.

Analysis of the Financial Situation
continued

SALES FINANCING POLICY

EADS favours cash sales, and encourages independent financing by customers, in order to avoid retaining credit or asset risk in relation to delivered products.

However, in order to support product sales, primarily at Airbus and ATR, EADS may agree to participate in the financing of customers, on a case-by-case basis, directly or through guarantees provided to third parties. A dedicated team closely monitors total EADS customer exposure and its evolution in terms of quality, volume and cash intensity. EADS aims to sell down exposure to outside parties whenever feasible.

In determining the amount and terms of the financing transaction, Airbus and ATR take into account the airline's credit rating as well as risk factors specific to the intended operating environment of the aircraft and its expected future value. Market yields and current banking practices also serve to benchmark the financing terms offered to customers, including price.

Sales financing transactions are generally collateralised by the underlying aircraft. Additionally, Airbus and ATR benefit from protective covenants and from security packages tailored according to the perceived risk and the legal environment.

RESTRUCTURING AND OTHER COSTS

Total restructuring charges of €221 million were recorded in 2001. This included new provisions and same year charges primarily related to (i) headcount reductions in the UK and early retirements in France at Airbus as part of adaptability measures following 11th September (€96 million); (ii) headcount reductions and early retirements at CELERG, LFK, AMM and EADS Telecom and a site closure at the Services business unit in the Defence and Civil Systems Division (€34 million); and (iii) headcount reductions at EADS Launch Vehicles in the Space Division (€91 million).

The balance of provisions for restructuring as at 31st December 2001 was €286 million.

RESULTS OF OPERATIONS

Year-to-year comparisons of results of operations are based upon the 2001 audited consolidated financial statements and the 2000 unaudited pro-forma consolidated financial statements. See "Introduction".

The following table sets forth the consolidated income statement of EADS for the twelve-month periods indicated.

Statements of Income for the Years Ended 31st December 2001 and 2000

in €m	Year ended 31st December 2001	2000 pro-forma
Revenues	30,798	24,208
Cost of sales	(25,235)	(20,072)
Gross margin	5,563	4,136
Selling, administrative and other expenses	(2,561)	(2,510)
Research and development expenses	(2,046)	(1,339)
Other income	3,024	342
Goodwill amortisation and impairment losses	(1,466)	(429)
Income before financial income and income taxes	2,514	200
Financial income (expense), net	(513)	(1,315)
Income (loss) before income taxes	2,001	(1,115)
Income taxes	(646)	220
Minority interests	17	(14)
Net income (loss)	1,372	(909)

USE OF EBIT AND NET INCOME PRE-GOODWILL AMORTISATION AND EXCEPTIONALS

EADS uses EBIT pre-goodwill amortisation and exceptionals and net income pre-goodwill amortisation and exceptionals as key indicators of its economic performance. The term "exceptionals" refers to income or expenses of a non-recurring nature, such as amortisation expenses of fair value adjustments relating to the EADS Merger, the Airbus Combination and the formation of MBDA, and impairment losses. In addition, "exceptionals" associated with net income are net of corresponding tax effects, and include an exceptional allowance for deferred tax assets.

Set forth below is a table reconciling EADS' income before financial income and income taxes with EADS' EBIT pre-goodwill amortisation and exceptionals.

	Year ended 31st December	
in €m	2001	2000 pro-forma
Income before financial income and income taxes	2,514	200
Dilution gain Airbus, MBDA	(2,794)	–
Goodwill amortisation and impairment losses	1,466	429
Exceptional depreciation (fixed assets)	260	176
Exceptional depreciation (financial assets)	315	–
Exceptional depreciation (inventories)	275	483
Income from investments	(342)	111
EBIT pre-goodwill amortisation and exceptionals	1,694	1,399

The following table sets forth the net income and earnings per share pre-goodwill amortisation and exceptionals of EADS for the twelve-month periods indicated.

	2001	2000 pro-forma
Net income attributable to shareholders pre-goodwill amortisation and exceptionals	€936m	€(45)m
Basic earnings per share pre-goodwill amortisation and exceptionals	€1.16	€(0.06)

Prior to the change in consolidation method from equity to cost of MNC and NNG, the value of these investments in the accounts of EADS was reflected in aggregate goodwill of €516 million. Impairment tests conducted for these businesses in light of the downturn in the telecommunications sector led to an exceptional aggregate depreciation of €315 million for MNC and for NNG, which is less than the goodwill recorded for such businesses on the 2001 opening consolidated balance sheet. Consequently, for the purpose of computing exceptionals, such depreciation is being treated as a goodwill impairment and the aggregate loss of €315 million related to MNC and NNG is being excluded from income from investments. Goodwill amortisation as recorded on the statement of income does not include this €315 million amount.

Analysis of the Financial Situation continued

CONSOLIDATED REVENUES AND EBIT BY DIVISION – SEGMENT INFORMATION

Set forth below is a breakdown of EADS' consolidated revenues by Division for the past two years, as well as consolidated capital expenditures (which include leased assets), consolidated research and development expenditures and consolidated EBIT pre-goodwill amortisation and exceptionals.

	Year ended 31st December 2001				Year ended 31st December 2000 (pro-forma)			
in €m	Revenues	Capital Expenditures	R&D	EBIT PGE [1]	Revenues	Capital Expenditures	R&D	EBIT PGE [1]
Airbus	20,549	1,433	1,630	1,655	14,856	657	920	1,412
Military Transport Aircraft	547	63	53	1	316	55	59	(63)
Aeronautics	5,065	281	132	308	4,704	307	128	296
Space	2,439	99	60	(222)	2,535	145	61	67
Defence and Civil Systems	3,345	159	173	(79)	2,909	117	161	(110)
Subtotal	31,945	2,035	2,048	1,663	25,320	1,281	1,329	1,602
Eliminations and others[2]	(1,147)	161	(2)	31	(1,112)	70	10	(203)
EADS	30,798	2,196	2,046	1,694	24,208	1,351	1,339	1,399

(1) "EBIT PGE" refers to EBIT pre-goodwill amortisation and exceptionals. Eliminations and others includes income from the Dassault Aviation investment.

(2) Includes, in particular, adjustments and eliminations for intercompany transactions and revenues from leases of office space.

AIRBUS

Consolidated revenues of the Airbus Division increased by 38.3% from €14,856 million in 2000 to €20,549 million in 2001, mainly due to the effects of the Airbus Combination, but also as a consequence of increases in aircraft deliveries from 311 aircraft in 2000 to 325 aircraft in 2001. As in 2000, most of the increase in deliveries occurred in the relatively lower-priced, single-aisle A319/A320/A321 aircraft family. Airbus delivered 257 units of this type of aircraft in 2001, compared with 241 in 2000. Revenues from 2000 to 2001 were only slightly affected by the strengthening of the dollar against the euro.

Consolidated capital expenditures increased by 118% from €657 million in 2000 to €1,433 million in 2001, primarily due to the Airbus Combination and investments for the A380 program.

Consolidated R&D expenses increased by 77.2 % from €920 million in 2000 to €1,630 million in 2001, principally as a consequence of the ramp-up of the A380 development program and increased expenditures in connection with the continued development of the A340-500 and A340-600 programs.

Consolidated EBIT pre-goodwill amortisation and exceptionals increased by 17.2% from €1,412 million in 2000 to €1,655 million in 2001. This increase was mainly a consequence of the Airbus Combination, as well as an increase in aircraft deliveries, productivity improvements and, to a lesser extent, the positive impact of the dollar-euro exchange rate. Increased R&D expenses, additional provisions related to restructuring and aircraft sales financing exposure partially offset the increase.

MILITARY TRANSPORT AIRCRAFT

Consolidated revenues in the MTA Division increased by 73.1% from €316 million in 2000 to €547 million in 2001, due principally to increased sales under the C-295 contract with the Spanish Airforce and the CN-235 contract with Turkey.

Consolidated capital expenditures increased by 14.5% from €55 million in 2000 to €63 million in 2001.

Consolidated R&D expenses decreased by approximately 10.2 % from €59 million in 2000 to €53 million in 2001.

Consolidated EBIT pre-goodwill amortisation and exceptionals improved from a loss of €63 million in 2000 to a gain of €1 million in 2001, principally as a result of a more favourable product mix and increased deliveries.

AERONAUTICS

Consolidated revenues in the Aeronautics Division increased by 7.7 % from €4,704 million in 2000 to €5,065 million in 2001, primarily due to an increase in revenues from Eurocopter and from other military aircraft programs, including the Eurofighter series production phase and, to a lesser extent, the maintenance business.

Consolidated capital expenditures decreased by 8.5% from €307 million in 2000 to €281 million in 2001.

Consolidated R&D expenses increased by 3.1% from €128 million in 2000 to €132 million in 2001.

Consolidated EBIT pre-goodwill amortisation and exceptionals increased by 4.1% from €296 million in 2000 to €308 million in 2001, mainly due to increased deliveries of aircraft.

DEFENCE AND CIVIL SYSTEMS

Consolidated revenues in the Defence and Civil Systems Division increased by 15.0% from €2,909 million in 2000 to €3,345 million in 2001. The increase related primarily to the effects of an enlarged scope of consolidation in the telecommunications business.

Consolidated capital expenditures increased by 35.9% from €117 million in 2000 to €159 million in 2001, primarily due to the acquisition of facilities by MBD.

Consolidated R&D expenses increased by 7.5% from €161 million in 2000 to €173 million in 2001.

Consolidated EBIT pre-goodwill amortisation and exceptionals improved from a loss of €110 million in 2000 to a loss of €79 million in 2001, mainly due to improved sales and margins, as well as the positive impact of previous restructuring on the Defence Electronics business. The improvement was offset in part by the impact from January through September 2001 of negative performance of the civil telecommunications joint ventures with Nortel.

SPACE

Consolidated revenues in the Space Division decreased by 3.8% from €2,535 million in 2000 to €2,439 million in 2001, primarily due to fewer deliveries of Ariane 5 and Ariane 4 launchers during 2001.

Consolidated capital expenditures decreased by 31.7% from €145 million in 2000 to €99 million in 2001.

Consolidated R&D expenses remained stable, with €61 million of expenses in 2000 and €60 million in 2001.

Consolidated EBIT pre-goodwill amortisation and exceptionals decreased from a gain of €67 million in 2000 to a loss of €222 million in 2001. The decrease is primarily attributable to write-downs of investments in Nahuelsat, Starsem, Arianespace and Spacehab following a critical reassessment of the value of certain investments. Reduced sales, continued restructuring costs and new provisions for restructuring associated with EADS Launch Vehicles contributed to the decrease.

RESULTS OF OPERATIONS OF EADS: 2001 COMPARED WITH 2000 (PRO-FORMA)

CONSOLIDATED REVENUES

Total consolidated revenues of EADS increased by 27.2% from €24,208 million in 2000 to €30,798 million in 2001. Of the 27% increase, approximately 17% was attributable to the effects of the Airbus Combination. The remainder of the increase was related to increased deliveries of commercial aircraft by Airbus, from 311 aircraft delivered in 2000 to 325 aircraft in 2001. All other Divisions of EADS, excluding the Space Division, contributed to the increase of consolidated revenues in 2001.

An additional factor that had a significant positive effect on EADS' revenue stream in 2001, given the importance of EADS' dollar-denominated sales, was the strengthening of the dollar against the euro over the course of 2001.

CONSOLIDATED COST OF SALES

Consolidated cost of sales for EADS increased 25.7% from €20,072 million in 2000 to €25,235 million in 2001. This increase was mainly attributable to the effects of the Airbus Combination. Costs associated with the increased deliveries of Airbus aircraft as well as charges associated with restructuring in the Defence and Civil Systems Division and the Space Division were also significant factors contributing to the increased consolidated cost of sales.

Analysis of the Financial Situation
continued

CONSOLIDATED SELLING, ADMINISTRATIVE AND OTHER EXPENSES

Consolidated selling, administrative and other expenses for EADS increased 2.0% from €2,510 million in 2000 to €2,561 million in 2001. The increase was mainly attributable to the effects of the Airbus Combination, including higher administrative expenses related to the Airbus Combination. This increase was offset by lower expenses than in 2000, which had been impacted by a disposal loss and higher provisioning.

CONSOLIDATED RESEARCH AND DEVELOPMENT EXPENSES

EADS' consolidated research and development expenses increased 52.8% from €1,339 million in 2000 to €2,046 million in 2001, primarily due to the full consolidation of Airbus and the ramping up of the A380 program. Expenses associated with the A340-600 certification remained high, while non-Airbus related research and development expenses were relatively unchanged from 2000.

CONSOLIDATED OTHER INCOME

Consolidated other income represents principally gains on sales of investments and fixed assets and rental income. EADS had other income in 2000 of €342 million, compared to €3,024 million in 2001. This increase is mainly due to the non-recurring effect of the dilution gains relating to the Airbus Combination (€2,537 million) and the MBDA transaction (€257 million, net of MBD goodwill amortisation). See "Accounting Considerations – Changes in Consolidated Entities" and "Accounting Considerations – Dilution Gains"

AMORTISATION OF GOODWILL AND IMPAIRMENT LOSSES

Consolidated amortisation of goodwill and impairment losses increased from €429 million in 2000 to €1,466 million in 2001, primarily as a result of (i) goodwill impairment losses in the Defence and Civil Systems Division (€580 million) and the Space Division (€210 million) and (ii) Airbus UK annual goodwill amortisation (€200 million). See "Accounting Considerations – Impairment of Assets".

CONSOLIDATED FINANCIAL INCOME (EXPENSE), NET

Consolidated financial income (expense), net includes principally investment income (including profits and losses of companies accounted for under the equity method and the write downs of non-consolidated investments), net interest expense and exchange rate gains and losses. Financial income (expense) of EADS improved from a net loss of €1,315 million in 2000 to a net loss of €513 million in 2001. Much of this variation was associated with negative investment income (€(342) million, including the €315 million impairment of MNC and NNG) and, to a lesser extent, EADS' remaining macro hedge portfolio (€(234) million). In 2001, most outstanding macro hedges were tied to specific orders in the backlog to form valuation units and have been recorded as micro hedges as required by IAS 39

CONSOLIDATED INCOME TAXES

In 2000, EADS reported a consolidated income tax benefit of €220 million, compared to a tax expense of €646 million in 2001, mainly related to the existence of positive taxable income in 2001, taking into account the non tax-deductible nature of goodwill amortisation and the mostly tax-free nature of dilution gains.

CONSOLIDATED NET INCOME

As a result of the factors discussed above, EADS recorded consolidated net income of €1,372 million in 2001, as compared to a pro-forma consolidated net loss of €909 million in 2000.

CASH FLOW AND LIQUIDITY

The following table sets forth a summary of the consolidated statements of cash flows for the years ended 31st December 2001 and 2000.

in €m	Year ended 31st December 2001	Year ended 31st December 2000 pro-forma
Net cash flows provided by operating activities	2,656	3,159
Including changes in working capital	2	1,460
Net cash flows generated by (used in) investing Activities[(1)]	(1,882)	(1,628)
Free cash flows	774	1,531
Net cash flows generated by (used in) financing Activities	(677)	1,635
Including capital increase	21	1,540
Effect of foreign exchange rate changes on cash and cash Equivalents	14	6
Net increase (decrease) in cash	111	3,172

(1) Excluding a €390 million investment in medium-term securities in 2001.

Cash flows provided by operating activities of €2,656 million were primarily generated from improved operating performance related to increased sales of aircraft at Airbus, while working capital contribution to cash was neutral due to additional inventory required by increased production volume, and lower customer advance receipts in relation to new Airbus orders.

Cash flows used in investing activities of €1,882 million were principally due to continued high levels of capital expenditures on technical plant and equipment, and the acquisition of Cogent, Tesat Spacecom and a share in Dornier GmbH, partially offset by the sell-down of a portion of Airbus' sales financing assets.

Cash flows used in financing activities of €677 million were principally related to dividend payments of €404 million.

CAPITAL EXPENDITURES

Capital expenditures incurred in 2001 were funded by net cash flows from operations and from the year's opening cash position. These capital expenditures related principally to various aircraft development programmes.

Overall, capital expenditures increased from €1,351 million in 2000 to €2,196 million in 2001. At Airbus, capital expenditures increased from €657 million in 2000 to €1,433 million in 2001, reflecting the effects of the Airbus Combination, an increase in leased aircraft and initial investments related to the A380 programme. Capital expenditures for the rest of EADS, including headquarters, remained relatively unchanged from 2000.

For the period 2002 to 2004, it is estimated that most of the increase in EADS' capital expenditure will occur in connection with Airbus activities, such as the establishment and expansion of production facilities for Airbus aircraft. In particular, the development programme for the A380 ultra-large aircraft will require substantial capital expenditures EADS expects to make additional capital expenditures in connection with the sales financing of commercial aircraft through operating leases in response to increased demand for such financing by its customers.

CAPITAL RESOURCES AND OTHER FINANCING

CASH FROM OPERATIONS

EADS generally finances its manufacturing activities and product development programmes, and in particular the development of new commercial aircraft, through a combination of funds generated by operating activities, customers' advance payments, risk-sharing partnerships with sub-contractors and reimbursable launch investments. In addition, EADS' military activities benefit from government-financed research and development contracts.

CASH POOLING AND CASH MANAGEMENT

In 2001, one of the important accomplishments of the EADS integration process was the implementation of a cash pooling system, which permits Management to assess reliably and instantaneously the cash position of each subsidiary within the Group. This system enables Management to allocate cash optimally within the Group depending upon shifting short-term needs. A cash management procedure is currently being rolled out on a trial basis within EADS. The procedure is designed to provide Management with a monthly updated perspective on cash generation and cash consumption for each subsidiary over the following twelve-month period.

In response to the events of 11th September 2001, and subsequent developments, Management assigned each subsidiary specific goals to aggressively preserve cash in their operations.

FUNDING

In July 2000, EADS completed a capital increase the proceeds of which have contributed significantly to the Company's net cash position. EADS continues to benefit from a strong cash position and has no current plans to increase borrowing or to issue new capital in the financial markets. However, it is actively exploring several means of ensuring access to additional sources of financing. Contemplated financing mechanisms include a syndicated back-up facility, a commercial paper programme and/or a medium-term note programme. Management believes that the establishment of such financing schemes will enhance its presence and standing in segments of the capital markets where EADS is not yet active.

CREDIT RATINGS

EADS currently is rated A3 with a stable outlook by Moody's, and A/negative/A-1 by Standard and Poor's.

Consolidated Financial Statements

Consolidated Income Statements for the years 2001 and 2000

in €m	Note	2001	2000 pro-forma
Revenues	5, 23	30,798	24,208
Cost of sales	6	(25,235)	(20,072)
Gross margin		**5,563**	**4,136**
Selling, administrative and other expenses	6	(2,561)	(2,510)
Research and development expenses		(2,046)	(1,339)
Other income	7	3,024	342
Amortisation of goodwill and related impairment losses	10	(1,466)	(429)
Income before financial result, income taxes and minority interests		**2,514**	**200**
Financial result, net	8	(513)	(1,315)
Profit (loss) before income taxes and minority interests		**2,001**	**(1,115)**
Income taxes	9	(646)	220
Minority interests		17	(14)
Net income		**1,372**	**(909)**

The accompanying notes are an integral part of these Consolidated Financial Statements.
EADS uses EBIT pre-goodwill amortisation 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 amortisation expenses of Fair Value Adjustments relating to the EADS Merger, the Airbus Combination and the formation of MBDA, as well as impairment charges.

in €m	Note	2001	2000 pro-forma
Income before financial income, income taxes and minority interests		2,514	200
Dilution gain Airbus UK, MBDA		(2,794)	–
Goodwill amortisation and related impairment charges		1,466	429
Exceptional depreciation (fixed assets)		260	176
Exceptional depreciation (financial assets)		315	–
Exceptional depreciation (inventories)		275	483
Income from investments		(342)	111
EBIT pre goodwill amortisation and exceptionals		1,694	1,399

Consolidated Balance Sheets at 31st December 2001 and 2000

in €m	Note	2001	2000
Assets			
Intangible assets	10	10,588	8,165
Property, plant and equipment	10	10,050	8,120
Investments and long-term financial assets	11	4,726	4,609
Fixed assets		**25,364**	**20,894**
Inventories	12	2,469	2,081
Trade receivables	13	5,183	4,118
Other receivables and other assets	14	2,633	2,624
Securities	15	5,341	4,682
Cash and cash equivalents		2,692	3,240
Non-fixed assets		**18,318**	**16,745**
Deferred taxes	9	**4,288**	**3,151**
Prepaid expenses		**745**	**654**
Total assets		**48,715**	**41,444**
Liabilities and stockholders' equity			
Capital stock		809	807
Reserves		10,346	9,359
Accumulated other comprehensive income		(1,278)	84
Stockholders' equity	16	**9,877**	**10,250**
Minority interests		**559**	**221**
Provisions	17	**11,918**	**8,684**
Financial liabilities	18	6,500	5,779
Trade liabilities	19	5,466	4,268
Other liabilities	19	10,631	8,200
Liabilities		**22,597**	**18,247**
Deferred taxes	9	**806**	**1,128**
Deferred income		**2,958**	**2,914**
Total liabilities and equity		**48,715**	**41,444**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements continued

Consolidated Statements of Cash Flows for the years 2001 and 2000 pro-forma

in €m	2001	2000 pro-forma
Net income (loss)	1,372	(909)
Income applicable to minority interests	(17)	14
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortisation of fixed assets	3,560	1,540
Valuation adjustments	493	483
Dilution gain Airbus/MBDA	(2,817)	0
Change in deferred taxes	109	(611)
Results of fixed assets/businesses	(71)	30
Change in accrued liabilities	47	1,259
Result of companies accounted for by the equity method	(22)	(107)
Change in other operating assets and liabilities:	**2**	**1,460**
– Inventories, net	(655)	(1,201)
– Trade receivables	(894)	252
– Trade liabilities	766	479
– Other assets and liabilities	785	1,930
Cash provided by operating activities	**2,656**	**3,159**
Investments:		
– Purchases of fixed assets and increase in equipment of leased assets	(2,196)	(1,351)
– Payments for investments in financial assets and acquisitions of subsidiaries	(1,096)	(600)
– Proceeds from disposal of fixed assets and decrease in equipment of leased assets	402	292
– Proceeds from disposals of financial assets and subsidiaries	850	187
– Change in finance lease receivables	138	(118)
Acquisitions of securities	(390)	0
Cash from changes in consolidation	20	(38)
Cash used for investing activities	**(2,272)**	**(1,628)**
Change in financial liabilities	(465)	83
Cash contribution minority	253	0
Dividends paid	(404)	(31)
Repayments to minorities	(52)	0
Capital increase	21	1,540
Others	(30)	43
Cash used for (provided by) financing activities	**(677)**	**1,635**
Effect of foreign exchange rate changes on cash and cash equivalents	14	6
Net increase (decrease) in cash and cash equivalents	**(279)**	**3,172**
Cash and cash equivalents		
Cash at beginning of period	**7,760**	**4,750**
Cash at end of period	**7,481**	**7,760**
additional securities medium-term	**552**	**162**
Cash and securities as stated in Balance Sheet	**8,033**	**7,922**
The following represents supplemental information with respect to cash flows from operating activities:		
Interest paid	(335)	(239)
Income taxes paid	(520)	(206)

The accompanying notes are an integral part of these Consolidated Financial Statements. Cash and cash equivalents also comprise securities.

Consolidated Statements of Changes in Shareholders' Equity for the years 2001 and 2000 pro-forma

in €m	Note	Capital stock	Reserves	Accumulated other comprehensive income	Total
Balance at 1st January 2000 pro-forma		**715**	**8,578**	**84**	**9,377**
Capital increase		80	1,366		1,446
Capital increase ESOP (incl. discount)		12	193		205
IPO-Costs			(56)		(56)
Net loss			(909)		(909)
Depreciation first half-year goodwill and fair values Dasa/Casa			197		197
Other changes			(10)		(10)
Balance at 31st December 2000		**807**	**9,359**	**84**	**10,250**
First application of IAS 39	22			(337)	(337)
Balance at 1st January 2001, adjusted		**807**	**9,359**	**(253)**	**9,913**
Capital increase ESOP	24	2	19		21
Net profit	23		1,372		1,372
Dividend	16		(404)		(404)
Other comprehensive income				(1,025)	(1,025)
thereof changes in fair values of securities	22			(10)	
thereof changes in fair values of hedging instruments	22			(878)	
thereof currency translation adjustment				(137)	
Balance at 31st December 2001		**809**	**10,346**	**(1,278)**	**9,877**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to Consolidated Financial Statements

BASIS OF PRESENTATION

1. THE COMPANY

The European Aeronautic Defence and Space Company EADS N.V. ("EADS" or the "Group"), a Dutch public company legally seated in Amsterdam, is one of the leading manufacturers of commercial aircraft, civil helicopters, commercial space launch vehicles, missiles, military aircraft, satellites and defence electronics. The Group is the result of the merger of the operations of Aerospatiale Matra S.A. ("ASM"), the aerospace and defence activities of DaimlerChrysler AG ("Dasa") and Construcciones Aeronauticas S.A. ("Casa") in July 2000.

For accounting purposes, the combination of ASM, Dasa and Casa was treated as a business combination using the purchase method of accounting with ASM as the acquirer. Adjustments have been made to allocate the excess of the fair values of Dasa and Casa over their historical costs amounting to €5,860 million and €1,095 million, respectively, to specifically identifiable assets acquired and liabilities assumed. Goodwill resulting from the acquisitions is amortised over 20 years, the expected period of benefit.

The consolidated financial statements of the Group have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board ("IASB") and the interpretations issued by the Standing Interpretations Committee of the IASB, except that the Group expenses all development costs as incurred (see note 2). The financial statements were authorised for issue by the Group's Board of Directors on 15th March 2002.

Prior to the business combination which resulted in the formation of EADS, the consolidated financial statements of ASM were prepared in accordance with French generally accepted accounting principles ("French GAAP"). In connection with the business combination, the consolidated financial statements of ASM for 1999 and for the period in 2000 prior to the business combination were restated from French GAAP into IAS.

The Group is disclosing financial statements covering the periods 2001 and, on a pro-forma basis, 2000. Since EADS as a Group did not exist throughout the total of the business year 2000, it cannot provide figures that cover all of this period. However, the group has prepared pro-forma figures for the period 1st January 2000 to 31st December, 2000. These pro-forma consolidated figures of EADS, which have not been audited, provide information as if EADS had already existed as of 1st January 2000 and are meant to reflect the development of EADS business as if it had taken place in 2000. Consequently, as the Airbus UK transaction and other transactions occurred in 2001, the pro-forma figures for 2000 do not reflect these transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation – The consolidated financial statements include all of the material subsidiaries under the control of EADS. Significant investments in which EADS has a 20% to 50% ownership ("associated companies") are generally accounted for using the equity method. For investments in material joint ventures, EADS uses the proportionate method of consolidation (see Note 3). Other investments are classified as available-for-sale financial instruments and are accounted for at fair value.

For business combinations accounted for under the purchase accounting method, all assets acquired and liabilities assumed are recorded at fair value. An excess of the purchase price over the fair value of net assets acquired is capitalised as goodwill and amortised over the estimated period of benefit on a straight-line basis.

The effects of intercompany transactions are eliminated.

Foreign Currencies – Transactions in foreign currencies are translated into euro at the foreign exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euro at the foreign exchange rate in effect at that date. Foreign exchange gains and losses arising from translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Euro at the foreign exchange rate in effect at the date of the transaction.

Financial statements of foreign operations – The assets and liabilities of foreign entities, where the local currency is other than Euro, are generally translated using period-end exchange rates while the statements of income are translated using average exchange rates during the period. Differences arising from the translation of assets and liabilities in comparison with the translation of the previous periods are included as a separate component of shareholders' equity ("Accumulated other comprehensive income").

Revenue Recognition – Revenues are recognised upon the transfer of risk or the rendering of a service. For construction contracts, revenues are recognised according to the percentage-of-completion method as contractually agreed-upon milestones are reached or the work progresses. Changes in profit rates are reflected in current earnings as identified. Contracts are reviewed for possible losses at each reporting period and provisions for estimated losses on contracts are recorded when identified.

Incentives applicable to performance on contracts are considered in estimated profit rates and are recorded when anticipated contract performance is probable and can be reliably measured. Contract penalties are charged to expense in the period it becomes probable that the Group will be subject to the penalties.

Sales of aircraft that include value guarantee commitments are accounted for as operating leases when these commitments are considered substantial compared to the fair value of the related aircraft. Revenues then comprise lease income from such operating leases.

Revenues attributable to customer financing relate principally to the financing of commercial aircraft. Such revenues include sales-type leases and finance income.

Product-Related Expenses – Expenses for advertising and sales promotion and other sales-related expenses are charged to expense as incurred. Provisions for warranties are made at the time the related sale is recorded.

Research and Development Expenses – Research and development funded by the Group is expensed as incurred. Financed research and development contracts are recorded as revenues.

Income Taxes –Deferred tax assets and liabilities reflect lower or higher future tax impacts that result for certain assets and liabilities from temporary valuation differences between their carrying amounts and the tax bases as well as from net operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes the enactment date.

As deferred tax assets anticipate potential future tax benefits, they are recorded in the consolidated financial statements of EADS only when the likelihood that the tax benefits will be realised is probable.

Intangible Assets – Purchased intangible assets, other than goodwill, are valued at acquisition cost and are generally amortised over their respective useful lives (3 to 10 years) on a straight line basis. Goodwill arising from purchase accounting is amortised over 5 to 20 years.

Property, Plant and Equipment – Property, plant and equipment is valued at acquisition or manufacturing costs less accumulated depreciation. Depreciation expense is recognised principally using the straight-line method. The costs of internally produced equipment and facilities include direct material and labour costs and applicable manufacturing overheads, including depreciation charges. The following useful lives are assumed: buildings six to 50 years; site improvements 6 to 20 years; technical equipment and machinery 3 to 20 years; and other equipment, factory and office equipment 2 to 10 years. The cost of specialised tooling for commercial production is capitalised and amortised over 5 years using the straight-line method. If the Group is liable for future restoration of leased sites, it accrues for the amount not provided for by insurances.

Notes to Consolidated Financial Statements continued

Investment Property – The Group accounts for investment property using the cost model. Investment property is recorded on balance sheet at book value, that is, at cost less any accumulated depreciation and any accumulated impairment losses.

Impairment of Long-lived Assets – The Group reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Lease – The Group is a lessee of property, plant and equipment. All leases that meet specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as finance leases. All other leases are accounted for as operating leases.

Non-fixed Assets – Non-fixed assets represent the Group's inventories, receivables, securities and cash, including amounts to be realised in excess of one year. In the accompanying notes, the portion of assets and liabilities to be realised and settled in excess of one year has been disclosed.

Inventories – Inventories are valued at the lower of acquisition or manufacturing cost or net realisable value. Manufacturing costs comprise direct material and labour and applicable manufacturing overheads, including depreciation charges. Borrowing costs are not capitalised.

Securities – Securities are accounted for at fair values, if readily determinable. Unrealised gains and losses on these investments are included within a separate component of stockholders' equity ("Accumulated other comprehensive income"), net of applicable deferred income taxes. All other securities are recorded at cost.

Cash and cash equivalents – Cash and cash equivalents consist of cash on hand, cash in bank, checks, and fixed deposits having a short-term maturity.

Financial Instruments – EADS uses derivative financial instruments for hedging purposes. Financial instruments used in micro-hedging strategies to offset the Group's exposure to identifiable and committed transactions are accounted for together with the underlying business transactions ("hedge accounting"). The Group´s criteria for classifying a derivative instrument as a hedge include: (1) the hedge transaction is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk, (2) the effectiveness of the hedge can be reliably measured, (3) there is adequate documentation of the hedging relationships at the inception of the hedge. Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at fair value. The resulting gains and losses on forward contracts and options hedging cash flows mainly based on the firm orderbook are included within a separate component of stockholders' equity ("accumulated other comprehensive income"), net of applicable income taxes and are subsequently recognised in the income statement as a component of the related transactions, when realised (the "deferral method").

The fair values of the derivative instruments as well as the methods used by EADS to determine the fair values are disclosed in Note 22.

When a hedging instrument expires or is terminated, any cumulative gain or loss existing in accumulated other comprehensive income at that time remains in accumulated other comprehensive income and is recognised when the related committed transaction is ultimately recognised in the income statement. If the committed transaction is no longer expected to occur, the cumulative gain or loss that was reported in accumulated other comprehensive income is immediately accounted for as financial result.

Financial instruments that have been previously used by EADS in macro-hedging strategies and do not qualify for hedge accounting are accordingly classified as held-for-trading and carried at fair value, with changes in fair value included in other financial result.
In March 1999, the International Accounting Standards Committee issued International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement". This Standard was effective for fiscal years beginning on or after 1st January 2001. Following the introduction of IAS 39, all derivative financial instruments have been recognised as assets or liabilities. The opening balance of equity as at 1st January 2001 has been adjusted. Prior year comparative figures have not been restated. Under the new standard, the Group applies hedge accounting for certain foreign currency derivative contracts on qualifying cash flow hedges of future sales as well as for certain interest rate swaps used as cash flow and fair value hedges of future interest payments. The financial effects of adopting IAS 39 are disclosed in Note 22.

Up to 31st December 2000, certain of the Group's hedging instruments have been accounted for as macro hedges. In order to achieve the same treatment as for the existing micro hedges, EADS was able to document for most of these instruments that from the date of designation, a hedging relationship existed between each position being hedged and each hedging financial instrument. The provision established for the mark to market valuation of those macro hedges as of 31st December 2000, will evolve until the contractual term of these financial instruments.

Refundable Advances – Refundable advances from European governments are recorded as "Other Liabilities".

Accrued Liabilities – Provisions for losses on completion of contracts – Provisions for losses on completion of contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write-downs of work-in-process for that portion of the work, which has already been completed, and as provisions for risks for the remainder.

Losses are determined on the basis of estimated results on completion of contracts and regularly updated.

Provisions for financial guarantees corresponding to aircraft sales – Sales contracts for aircraft may stipulate financial guarantees for lease payments, for the residual values of aircraft, for the repayment of the balance of outstanding borrowings and for the financing of the sales of certain aircraft on behalf of the Group. Guarantees may be sole, joint (e.g., with engine manufacturers) or restricted to a ceiling defined in the contract. Provisions are recorded to reflect the underlying risk to the group in respect of guarantees given.

Retirement indemnities – When Group employees retire, they receive indemnities as stipulated in retirement or collective agreements, in accordance with regulations and practices of the countries (principally Germany and France) in which the Group operates.

French law stipulates that employees are paid retirement indemnities on the basis of the length of service. In Germany, retirement indemnities are principally paid on the basis of salaries and seniority. Certain pension plans are based on salary earned in the last year or on an average of the last three years of employment while others are fixed plans depending on ranking (both salary level and position).

Actuarial assessments are regularly made to determine the amount of the Group's commitments with regard to retirement indemnities. This assessment includes an assumption concerning changes in salaries, retirement ages and long-term interest rates. It comprises all the expenses the Group will be required to pay to meet these commitments.

The resulting obligation is recorded in the balance sheet as a provision. Actuarial gains and losses are deferred and recorded over the remaining average service life of employees.

Use of Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. SCOPE OF CONSOLIDATION

Perimeter of consolidation (31st December 2001) – The consolidated financial statements include, in addition to EADS N.V.:

- 206 companies which are fully consolidated,
- 33 companies which are proportionately consolidated,
- 17 companies, which are investments in associates and are accounted for using the equity method.

The significant subsidiaries, associates, and joint ventures are listed in the appendix entitled "Information on principal investments".

4. MAJOR EVENTS

Creation of EADS

EADS was created as of 10th July 2000. For accounting purposes, the combination of ASM, Dasa, and Casa was treated as a business combination using the purchase method of accounting. As a result, the balance sheets of Dasa and Casa were revalued to reflect fair market value of acquired assets and liabilities, while the balance sheet of ASM was included in the EADS at historical cost.

Notes to Consolidated Financial Statements continued

First Application of IAS 39
As of 1st January 2001, EADS applied IAS 39 "Financial Instruments: Recognition and Measurement". For the vast majority of derivative financial instruments used to hedge mainly firm commitments, EADS fulfils the qualifying criteria for hedge accounting. As a result, provisions have increased by €1.9 billion to €3.7 billion as at 31st December 2001. The net effect is shown as a decrease in consolidated equity, within a separate component of stockholders' equity ("accumulated other comprehensive income"), net of applicable deferred income taxes.

Airbus UK Transaction
As of 1st January 2001, the date when EADS gained economic control, the new integrated Airbus company (Airbus SAS) has been consolidated 100% within EADS. Legal closing of the transaction was 11th July 2001. The new Airbus company is now held 80% by EADS and 20% by BAE Systems ("BAES").

The main accounting impacts of this transaction are as follows:

- Airbus UK as well as its 20% participation in Airbus GIE have been transferred to EADS. In exchange for the contribution of Airbus UK to Airbus SAS at fair value, BAES received 20% of Airbus SAS's shares.
- The key financial impacts of this transaction include the recognition of a goodwill of about €4 billion, fair value adjustments of approximately €0.5 billion, and a dilution gain of about €2.5 billion.

Creation of MBDA
On 18th December 2001, EADS, BAES and Finmeccanica signed the agreement establishing MBDA as a legal operating entity. MBDA is jointly owned with 37.5% by EADS and BAES, respectively and 25% by Finmeccanica.

The main accounting impacts are as follows:

- EADS has transferred its shares in Aerospatiale Matra Missiles and Matra BAE Dynamics to MBDA in exchange for 37.5% of Alenia Marconi Systems; the purchase accounting method was applied. The transaction resulted in a dilution gain amounting to €0.3 billion.
- To better reflect the substance of the MBDA transaction, EADS consolidates proportionately 50% of MBDA with a disclosure of 12.5% minority interest instead of a proportionate consolidation of its economic interest of 37.5%. This method has been chosen because EADS together with BAES jointly controls the operations of MBDA.

Tesat-Spacecom
On 30th November 2001, Astrium Group, which is consolidated proportionally at 75% within EADS and as part of Space Division, acquired Tesat-Spacecom GmbH & Co. KG, Germany, (formerly Bosch-Satcom GmbH), the Space/Communications and related businesses of Robert Bosch Group. The acquisition was accounted for under the purchase method. The initial goodwill was valued at €0.1 billion and will be depreciated over a period of 20 years. Astrium anticipates finalising the TESAT-COM purchase price allocation during 2002.

Nortel Joint Ventures
As of the beginning of the fourth quarter 2001, modifications initiated by Nortel in the management structure of the Nortel joint ventures led EADS to change its accounting treatment regarding its 42% investment in Nortel Networks Germany and its 45% investment in Matra Nortel Communications. As a result, Nortel Networks Germany and Matra Nortel Communications are now included in EADS' financial statements as non-consolidated investments. Before 1st October 2001, the equity method had been applied.

Dornier
In 2001 several Dornier family members being shareholders of Dornier GmbH exercised a put option and offered 17.5% of the shares in Dornier GmbH to DaimlerChrysler. DaimlerChrysler in return had the right to have DADC Luft- und Raumfahrt Beteiligungs AG ("DADC"), a subsidiary of EADS, buy the shares at fair market value. As a result, EADS holds indirectly through DADC 76% of the share capital of Dornier GmbH (2000: 58%).

Cogent
On 1st December 2001, EDSN acquired Cogent Defence Systems. The acquisition was accounted for under the purchase method. The initial goodwill was valued at €0.1 billion and will be depreciated over a period of ten years.

NOTES TO THE CONSOLIDATED STATEMENTS OF INCOME

5. REVENUES

Revenues in 2001 reach €30,798 million (2000 pro-forma: €24,208 million). This increase is mainly due to the full consolidation of new Airbus Group for the first time, to a growth in aircraft deliveries at Airbus as well as to the average currency exchange rate increase of US dollar to euro from the prior year same period.

Revenues are comprised of sales of goods and services, which relate mainly to sales of commercial airplanes, as well as of revenues associated with construction contracts accounted for under the percentage-of-completion-method, financed research and development, customer financing revenues and others.

6. FUNCTIONAL COSTS AND OTHER EXPENSES

Cost of sales and other functional costs include cost of materials as follows:

in €m	Year ended 31st December 2001	2000
Cost of raw materials, supplies and resale products	14,401	11,232
Cost of purchased services	5,635	3,886
	20,036	15,118

Selling, administrative and other expenses are comprised of the following:

in €m	Year ended 31st December 2001	2000
Selling expenses	800	710
Administration expenses	1,386	1,180
Other expenses	375	620
	2,561	2,510

Other expenses include losses from sales of fixed assets (€20 million and €50 million in 2001 and 2000, respectively) and additions to other accruals (€34 million and €124 million in 2001 and 2000, respectively).

Personnel expenses of €6,863 million are comprised of wages, salaries and social contributions amounting €6,606 million as well as net periodic pension cost (see Note 17a) of €257 million.

7. OTHER INCOME

Other income mainly comprises the dilution gain as a result of the Airbus UK transaction (see Note 4) as well as a dilution gain as a result of the MBDA transaction, totalling €2,817 million, rental income (€21 million and €49 million in 2001 and 2000, respectively).

8. FINANCIAL RESULT

The table below sets forth the financial result of the group:

in €m	Year ended 31st December 2001	2000
Income (loss) from investments	(342)	111
Interest income	63	10
Other financial loss	(234)	(1,436)
	(513)	(1,315)

The loss from investments in 2001 is mainly driven by a depreciation, following an impairment test, of Matra Nortel Communications and Nortel Networks Germany totalling €(315) million. Additionally included is the result on equity investments of €22 million mainly comprised of Dassault €(111) million and Nahuelsat (€(63) million).

Other financial loss in 2001 and 2000 mainly results from mark-to-market revaluation of financial instruments that do not qualify for hedge accounting (see Note 22 on Financial Instruments).

Notes to Consolidated Financial Statements continued

9. INCOME TAXES

Income (loss) before income taxes and minority interests amounted to €2,001 million for the year ended 31st December 2001 (2000: €(1,115) million).

The (expense) benefit for income taxes consists of the following:

in €m	Year ended 31st December 2001	2000
Current tax expense	(549)	(405)
Deferred tax (expense)/benefit	(97)	625
	(646)	220

For the Group's German subsidiaries, the deferred taxes at 31st December 2001 are calculated using a federal corporate tax rate of 25% (2000: 25%) plus a solidarity surcharge of 5.5% for each year on federal corporate taxes payable plus the after federal tax benefit rate for trade tax of 12.125% (2000: 12.125%). Including the impact of the surcharge and the trade tax, the tax rate applied to German deferred taxes amounts to 38.5% (2000: 38.5%).

In 2000, the German government enacted new tax legislation which reduces the Group's statutory corporate tax rate for its German subsidiaries from 40% on retained earnings and 30% on distributed earnings to a uniform 25%, effective beginning 1st January 2001.

In France, the corporate tax rate in effect for 2000 was 33⅓% plus a surcharge of 10%. The French government has established for the years 2001 and 2002 a reduced surcharge of 6% in 2001 and 3% in 2002. Accordingly, deferred tax assets and liabilities for the Group's French subsidiaries were calculated using the enacted tax rate of 35.43% for temporary differences. The effects of the tax rate reduction on the year-end 2001 and 2000 deferred tax assets and liabilities are reflected in the reconciliation presented below.

The following table shows a reconciliation from an expected income tax expense – using the Dutch corporate tax rate of 35% – to the reported tax expense (2000: benefit). The reconciling items represent non-taxable benefits or non-deductible expenses coming from permanent differences between the local tax base and the reported financial statements according to IAS rules.

in €m	Year ended 31st December 2001	2000
Profit (loss) before income taxes and minority interests	2,001	(1,115)
x Corporate income tax rate	35%	35%
Expected benefit (expense) for income taxes	(700)	390
Effect of changes in tax laws	(1)	88
Foreign tax rate differential	(4)	24
Dilution gains	936	–
Goodwill amortisation	(588)	(192)
Write down of deferred tax assets	(264)	(129)
Tax credit for R&D expenses	48	28
Other	(73)	11
Reported tax benefit (expense)	(646)	220

In 2001, the tax effect of the non-deductable depreciation of certain investments is reflected above in other (€(73) million).

Deferred income taxes reflect temporary valuation differences on certain assets and liabilities between their carrying amount in the financial statements and the tax bases. Future tax impact from net operating losses and tax credit carry forwards are also considered in the deferred income tax calculation. Deferred income taxes are recorded on the following assets and liabilities:

in €m	31st December 2001	31st December 2000
Intangible assets	12	20
Investments and long-term financial assets	–	12
Inventories	379	193
Prepaid expenses	174	203
Net operating loss and tax credit carryforwards	613	343
Retirement plans	498	473
Other accrued liabilities	2,239	1,059
Liabilities	585	743
Deferred income	870	594
	5,370	3,640
Write down of deferred tax assets	(625)	(360)
Deferred tax assets	4,745	3,280
Property, plant and equipment	1,046	975
Investments and long-term financial assets	81	–
Receivables	107	259
Other	29	23
Deferred tax liabilities	1,263	1,257
Deferred tax assets, net	3,482	2,023

At 31st December 2001, the Group had domestic corporate tax net operating losses ("NOLs") amounting to €62 million, foreign NOLs and credit carryforwards amounting to €1,568 million, and foreign trade tax NOLs amounting to €726 million. The amount of the Group's deferred tax valuation allowances is based upon management's estimate of the level of deferred tax assets that will be realised. In future periods, depending upon the Group's financial results, management's estimate of the amount of the deferred tax assets considered realisable may change, and hence the write down of deferred tax assets may increase or decrease.

After netting of deferred income tax assets and liabilities within the same taxable entity and maturity, the deferred income tax assets and liabilities in the consolidated balance sheets are as follows:

	31st December 2001		31st December 2000	
in €m	Total	thereof non-current	Total	thereof non-current
Deferred tax assets	4,288	2,924	3,151	2,419
Deferred tax liabilities	(806)	(689)	(1,128)	(691)
Deferred tax assets, net	3,482	2,235	2,023	1,728

The deferred tax recognised directly in equity during the period is as follows:

in €m	2001
Effect of adopting IAS 39	222
Fair value reserves in equity:	
Available-for-sale investments	1
Cash flow hedges	606
Total	829

Notes to Consolidated Financial Statements continued

NOTES TO THE CONSOLIDATED BALANCE SHEETS

10. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT, NET

Intangible assets

Intangible assets principally represent goodwill. Schedules detailing gross, accumulated depreciation and net values of intangible assets are as follows:

Cost

in €m	Balance at 1st January 2001	Exchange differences	Additions	Changes in consolidation scope	Reclassifi-cation	Disposals	Balance at 31st December 2001
Other intangible assets	305	2	96	(3)	–	(22)	378
Goodwill	8,442	2	4,453	–	(389)	(245)	12,263
Total	8,747	4	4,549	(3)	(389)	(267)	12,641

Amortisation

in €m	Balance at 1st January 2001	Exchange differences	Amortisation charge	Changes in consolidation scope	Impairment charge	Disposals	Balance at 31st December 2001
Other intangible assets	(189)	(1)	(61)	3	–	16	(232)
Goodwill	(393)	(1)	(676)	–	(790)	39	(1,821)
Total	(582)	(2)	(737)	3	(790)	55	(2,053)

Carrying amount

in €m	Balance at 1st January 2001	Balance at 31st December 2001
Other intangible assets	116	146
Goodwill	8,049	10,442
Total	8,165	10,588

Goodwill increased mainly due to the purchase of Airbus UK and 20% stake in Airbus GIE.

Reclassification of goodwill €(389) million results from €(516) million related to the Nortel Joint Venture reclassified to financial assets, partly offset by €127 million from other receivables and other assets to goodwill (see Note 14). As a result of the creation of MBDA, €209 million of goodwill considered at the time of the Aerospatiale Matra transaction have been included in the computation of the net dilution gain and is shown within disposals.

Impairment loss

In 2001, following the events caused by the terrorist attacks on 11th September 2001, the Group performed an impairment test on recognised goodwill for the Airbus division. The recoverable amount of Airbus, which is to be seen as a cash generating unit on its own, is exceeding the carrying amount. Therefore, no goodwill has to be impaired.

Further impairment tests were performed for the Space and Defence divisions. Based on current forecasts the Group performed impairment tests which resulted in impairment charges as follows:

- Space division: Goodwill for Astrium had to be impaired by €210 million.
- Defence division: Impairment charges on goodwill for Systems & Defence Electronics (S&DE) of €240 million, LFK of €170 million and Matra Datavision of €170 million had to be recognised.

The impairment tests had been performed using the discounted cash-flow method.

Property, plant and equipment

Schedules detailing gross, accumulated depreciation and net values of property, plant and equipment show the following:

Cost

in €m	Balance at 1st January 2001	Additions	Change in consolidation scope and exchange differences	Reclassifi-cation	Disposals	Balance at 31st December 2001
Land, leasehold improvements and buildings including buildings on land owned by others	3,523	205	109	106	(67)	3,876
Technical equipment and machinery	3,295	270	770	255	(78)	4,512
Other equipment, factory and office equipment	5,279	923	1,176	30	(189)	7,219
Advance payments relating to plant and equipment and construction in progress	443	701	111	(342)	(101)	812
Total	12,540	2,099	2,166	49	(435)	16,419

Depreciation

in €m	Balance at 1st January 2001	Depreciation charge	Change in consolidation scope and exchange differences	Reclassifi-cation	Disposals	Balance at 31st December 2001
Land, leasehold improvements and buildings including buildings on land owned by others	(1,038)	(183)	(32)	(17)	3	(1,267)
Technical equipment and machinery	(1,875)	(477)	10	21	62	(2,259)
Other equipment, factory and office equipment	(1,496)	(840)	(365)	(188)	56	(2,833)
Advance payments relating to plant and equipment and construction in progress	(11)	(1)	–	2	–	(10)
Total	(4,420)	(1,501)	(387)	(182)	121	(6,369)

Carrying amount

in €m	Balance at 1st January 2001	Balance at 31st December 2001
Land, leasehold improvements and buildings including buildings on land owned by others	2,485	2,609
Technical equipment and machinery	1,420	2,253
Other equipment, factory and office equipment	3,783	4,386
Advance payments relating to plant and equipment and construction in progress	432	802
Total	8,120	10,050

Reclassification of other equipment, factory and office equipment (€188 million) includes an allocation of Aircraft financial risk provisions for leased aircraft of €169 million.

Additions to property, plant and equipment represent largely leased aircraft at Airbus and Aeronautics divisions as well as additions to facilities. The change in consolidation scope represents mainly the first time consolidation of Airbus UK and 20% stake in Airbus GIE.

Leased aircraft classified as operating lease equipment are included in the position “Other equipment, factory and office equipment” and represent amounts at cost of €3,206 million and €2,816 million as at 31st December 2001 and 2000, respectively (net of accumulated depreciation of €1,384 million and €610 million). The related depreciation expense for 2001 amounts to €419 million (2000: €177 million). These aircraft classified as operating lease include aircraft that have been accounted for as leases because of substantial value guarantee commitments of €1,912 million and other aircraft €1,294 million.

Property, plant and equipment include buildings, technical equipment and other equipment accounted for in fixed assets under finance lease agreements for net amounts of €169 million (net of accumulated depreciation of €273 million) as at 31st December 2001 and €195 million as at 31st December 2000.

Non-cancellable future lease payments due from customers for equipment on operating leases to be included in revenues, at 31st December 2001 are as follows:

2002	€195m
2003	€193m
2004	€191m
2005	€189m
2006	€178m
thereafter	€443m

11. INVESTMENTS AND LONG-TERM FINANCIAL ASSETS

The following table sets forth the composition of investments and long-term financial assets:

in €m	31st December 2001	31st December 2000
Equity investments	1,252	1,318
Other investments	766	422
Other financial assets	2,708	2,869
Total	4,726	4,609

Equity investments comprise for 2001 the 45.96% (2000: 45.76%) interest in Dassault Aviation of €1,252 million (2000: €1,164 million). A list of the investments in associates is included in Appendix "Information on principal investments". All significant investments in associates have been accounted for using the equity method.

Other investments comprise a 42% interest in Nortel Networks Germany of €156 million and a 45% interest in Matra Nortel Communications of €119 million. At 31st December 2000, these investments had been recorded at equity with €55 million and €70 million, respectively. The increase in 2001 is mainly derived from the allocation of related goodwill. Other financial assets include loans to customers of €949 million and finance lease receivables from aircraft financing operations of €514 million. Other financial assets also include security deposits of €1,044 million and other loans, e.g. to employees of €201 million.

The components of investment in finance leases are as follows:

in €m	At 31st December 2001
Minimum lease payments receivables	1,022
Unearned finance income	(222)
Allowance	(286)
Total	514

Future minimum lease payments and investments in finance leases to be received are as follows:

2002	€128m
2003	€117m
2004	€121m
2005	€92m
2006	€90m
thereafter	€474m

12. INVENTORIES

in €m	At 31st December 2001	2000
Raw materials and manufacturing supplies	929	749
Work in progress	6,590	5,045
Finished goods, parts and products held for resale	3,314	2,027
Advance payments to suppliers	1,230	1,125
	12,063	8,946
Less: Advance payments received	(9,594)	(6,865)
	2,469	2,081

13. TRADE RECEIVABLES

in €m	At 31st December 2001	2000
Receivables from sales of goods and services	5,572	4,494
Allowance for doubtful accounts	(389)	(376)
	5,183	4,118

As of 31st December 2001, €155 million of the trade receivables mature after more than one year.

14. OTHER RECEIVABLES AND OTHER ASSETS

Other receivables and other assets include an amount of €454 million (2000: €771 million) corresponding to the remaining capitalised settlement payment to the German Government with respect to refundable advances which is amortised through the income statement at the delivery pace of the corresponding planes. Due to additional evidence regarding these refundable advances subsequent to acquisition date (1st July 2000) resulting from a valuation study for Airbus long range airplanes, a part of the amount assigned to this asset was reclassified as goodwill. The adjustment to the fair value as compared to when the acquisition was originally accounted for amounts to a reduction of €206 million in other assets at the date of acquisition of Dasa by ASM to form EADS. Corresponding to that, deferred tax liabilities have been reduced by €79 million and goodwill increased by €127 million.

Other receivables and other assets further comprise receivables from affiliated companies of €189 million (2000: €183 million) and receivables from related companies of €352 million (2000: €398 million), net of allowance of €(112) million (2000: €(25) million).

As of 31st December 2001, €1,023 million of other receivables and other assets mature after more than one year (2000: €681 million).

15. SECURITIES

The securities of €5,341 million (2000: €4,682 million) comprise mainly "Available-for-Sales Securities" amounting to €5,317 million (2000: €4,655 million).

16. SHAREHOLDERS' EQUITY

The issued share capital of the Group consists of 809,175,561 ordinary shares as at 31st December 2001 (2000: 807,157,667). The authorised share capital consists of 3,000,000,000 shares. The shares have a par value of €1.00.

In connection with the ESOP 2001 – Employee Stock Ownership Plan – (see Note 24), EADS issued 2,017,894 shares with a nominal value of €1.00, representing a nominal value of €2,017,894.00.

The Group's Board of Directors took decisions on 12th July and 18th September 2001 to launch a share buy back plan as approved by the general meeting of shareholders on 10th May 2001. As a result, the Board of Directors requested the Chief Executive Officers to set up a buy back plan for 10,500,000 shares. In 2001, the Group has not bought back any shares.

On 10th May 2001, the general meeting of shareholders further decided to pay a cash dividend for 2000 for a gross amount of €0.50 per share, which was paid on 27th June 2001.

The change of shareholders' equity is provided in the Consolidated Statements of Changes in Shareholders' Equity.

Notes to Consolidated Financial Statements continued

17. PROVISIONS

in €m	At 31st December 2001	2000
Retirement plans (see Note 17a) and similar obligations	3,176	2,986
Other provisions (see Note 17b)	8,742	5,698
	11,918	8,684

€3,128 million (2000: €2,836 million) of retirement plans and similar obligations and €4,460 million (2000: €2,894 million) of other provisions have a maturity of more than one year.

a) Retirement plans
When Group employees retire, they receive indemnities as stipulated in retirement agreements, in accordance with regulations and practices of the countries (principally France and Germany) in which the Group operates. French law stipulates that employees are paid retirement indemnities on the basis of the length of service. In Germany, retirement indemnities are paid on the basis of salaries and seniority.

The following provides information with respect to the Group's pension liabilities.

in €m	At 31st December 2001	2000
Change in defined benefit obligations:		
Defined benefit obligations at beginning of year	3,512	3,510
Service cost	84	81
Interest cost	220	195
Plan amendments	(8)	3
Actuarial (gains) losses	191	(159)
Acquisitions and other	12	1
Benefits paid	(131)	(119)
Defined benefit obligations at end of year	3,880	3,512

The defined benefit obligation at end of the year is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Change in plan assets:		
Fair value of plan assets at beginning of year	682	594
Actual return on plan assets	(70)	88
Contributions	1	38
Benefits paid	(42)	(38)
Fair value of plan assets at end of year	571	682

The fair value of plan assets at end of the year comprises assets held by long-term employee benefit funds that exist solely to pay or fund employee benefits.

A reconciliation of the funded status to the amounts recognised in the consolidated balance sheets is as follows:

in €m	At 31st December 2001	2000
Funded status[1]	3,309	2,830
Unrecognised actuarial net gains (losses)	(158)	129
Net amount recognised	3,151	2,959

1 Difference between the defined benefit obligations and the fair value of plan assets.

The net amount recognised represents the amount recognised as a defined benefit pension liability and is part of the caption "Retirement plans and similar obligations". It includes the funded status, adjusted by actuarial net gains/losses, which do not have to be recognised because they do not meet the recognition criteria. The difference between the net amount recognised as pension liability (€ 3,151 million; 2000: € 2,959 million) and the total amount of retirement plans and similar obligations (€ 3,176 million; 2000: € 2,986 millions) is caused mainly by additional commitments for deferred compensation, which in the year of its origin do not form part of the net amount recognised as pension liability.

The weighted-average assumptions used in calculating the actuarial values of the retirement plans were as follows:

Assumptions as of 31st December:	2001 %	2000 %
Discount rate	5.0 – 6.0	5.0 – 6.5
Rate of compensation increase	3.0 – 3.5	1.5 – 3.0
Inflation rate	2.0	2.0 – 2.5

For the Group's German entities, the applied interest rate used in the actuarial opinion dropped from 6.5% to 6.0%.

The components of the net periodic pension cost, included in Income before financial result income taxes and minority interests, were as follows:

in €m	2001	2000 pro-forma
Service cost	84	81
Interest cost	220	195
Expected return on plan assets	(47)	(48)
Net periodic pension cost	257	228

b) Other provisions

Other provisions consisted of the following:

	At 31st December	
in €m	2001	2000
Aircraft financial risks	1,498	981
Services to be supplied	820	918
Contract losses	450	338
Warranties	198	263
Financial instruments	3,673	1,140
Other risks and charges	2,103	2,058
	8,742	5,698

The increase in provision for Aircraft financial risks is mainly due to Airbus first time 100% consolidation and to the adaption of the level of the provision to the net exposure. The increase in provisions for financial instruments is due to IAS39 first-time application, hedge portfolio increase and US$ strengthening against euro and UK£.

Development of provisions in €m	Total
as of 31/12/2000	5,698
Change in consolidation scope	591
Change in financial instruments (provision)	1,695
Reclassification from deferred income and prepaid expenses to financial instruments (provision)	607
Additions/Utilisation	151
as of 31/12/2001	8,742

Notes to Consolidated Financial Statements continued

18. FINANCIAL LIABILITIES

in €m	At 31st December 2001	2000
Bonds	426	270
Liabilities to financial institutions	286	379
Liabilities to affiliated companies	90	52
Loans	106	97
Liabilities from finance leases	110	75
Others	444	130
Short-term financial liabilities (due within one year)	1,462	1,003
Bonds	195	599
Liabilities to financial institutions	1,541	1,447
thereof due in more than five years: 1,162 (2000: 1,031)		
Liabilities to affiliated companies	18	0
thereof due in more than five years: 9 (2000: 0)		
Loans	1,648	1,169
thereof due in more than five years: 1,217 (2000: 713)		
Liabilities from finance leases	1,636	1,561
thereof due in more than five years: 1,094 (2000: 1,150)		
Long-term financial liabilities	5,038	4,776
	6,500	5,779

The rise in financial liabilities by €721 million to €6,500 million is caused by first time consolidation of Airbus UK and the additional 20% of Airbus GIE. Included in Others are financial liabilities against joint venture partners.

Aggregate amounts of financial liabilities maturing during the next five years and thereafter are as follows:

in €m	2002	2003	2004	2005	2006	there-after
Financial liabilities	1,462	497	319	313	427	3,482

19. TRADE AND OTHER LIABILITIES

in €m	At 31st December 2001	2000
Trade liabilities	5,466	4,268
Other liabilities	10,631	8,200
	16,097	12,468

In the trade liabilities as of 31st December 2001, €173 million (2000: €202 million) mature after more than one year. Included in "other liabilities" are €2,024 million (2000: €1,136 million) maturing after more than five years.

At 31st December 2001, other liabilities mainly comprise customer advance payments of €4,509 million (2000: €3,811 million), as well as European Governments refundable advances of €3,469 million (2000: €2,088 million). They also include further liabilities to related parties of €68 million (2000: €103 million) and to affiliated parties amounting to €85 million (2000: €39 million). The increase in European Governments refundable advances results mostly from the first consolidation of Airbus UK.

OTHER NOTES

20. LITIGATION AND CLAIMS
Various legal actions, governmental investigations, proceedings and other claims are pending or may be instituted or asserted in the future against the Group. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is reasonably possible that the final resolution of some of these matters may require the Group to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. The term "reasonably possible" is used herein to mean that the chance of a future transaction or event occurring is more than remote but less than likely. Although the final resolution of any such matters could have a material effect on the Group's consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve is recorded, the Group believes that any resulting adjustment should not materially affect its consolidated financial position.

21. COMMITMENTS AND CONTINGENCIES
At 31st December 2001, in relation to its Airbus and its ATR activities, EADS is contingently liable for credit guarantees and has participations in financing receivables under certain customer finance programmes. When contracting such customer financing exposure, Airbus and ATR have generally established a secured position in the aircraft being financed. EADS believes that the estimated fair value of the aircraft securing such commitments will substantially offset any potential losses from the commitments. Provisions are taken to cover any shortfall between the amount of financing commitments given and the fair market value of the aircraft financed. Additionally, the Group entered into commitments to provide financing with respect to aircraft on order, including options for delivery in the future. The risk that such commitments be exercised is considered remote. Exposure is only recognised when a financing is in place, which occurs upon delivery of the aircraft.

Despite the underlying collateral, if Airbus should be unable to honour its obligations, certain EADS and BAE SYSTEMS group companies retain joint and several liability for sales financing exposure incurred by Airbus prior to 1st January 2001. EADS' exposure to liabilities incurred by Airbus following 1st January 2001 is limited by its status as a shareholder in Airbus SAS. With respect to ATR, each shareholder is jointly and severally liable to third parties without limitation. The liability is limited to each partner's proportionate share.

Commitments (€245 million; 2000: €299 million) include contingent liabilities principally representing guarantees of indebtedness, contractual guarantees and commitments as to contractual performances.

In addition, the Group has granted some European governments and other customers performance bonds in connection with orders.

Operating lease commitments
Future nominal rental expenses for rental and lease agreements, which have initial or remaining terms in excess of one year at 31st December 2001 are as follows:

in €m	Operating leases
2002	416
2003	400
2004	416
2005	391
2006	395
thereafter	2,866

The total of these future commitments of €4,884 million includes aircraft lease commitments relating mostly to Airbus of €3,945 million and procurement operations (e.g., facility leases, car rentals) of €839 million. Aircraft lease commitments arise from aircraft head-leases and are typically backed by corresponding sublease income from customers. A large part of these Airbus lease commitments (€2,092 million) arises from transactions that were sold down to third parties, which assume liability for the payments. The nominal value of future Airbus aircraft lease commitments where EADS bears the risk is €1,853 million. EADS determines its gross exposure to such operating leases as the present value of the related payment streams.

22. INFORMATION ABOUT FINANCIAL INSTRUMENTS
a) Financial risk management
By the nature of the activities carried out, EADS is exposed to a variety of financial risks, especially foreign currency exchange rate risks and interest rate risks, as explained below. The management of such financial risks at EADS is carried out by a central treasury department under policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks is in the responsibility of the operating companies.

Notes to Consolidated Financial Statements
continued

Foreign currency exchange rate risks – EADS' revenues are mainly denominated in US dollars, whereas the major portion of its costs are incurred in euros. Consequently, to the extent that EADS does not use financial instruments to cover its foreign currency exchange rate exposure from the time of a customer order of equipment to the time of its delivery, its profits will be affected by changes in the euro-US dollar exchange rate. As the Group intends to generate profits only from its operations and not through speculation on foreign currency exchange rate movements, EADS uses hedging strategies to manage and minimise the impact of exchange rate fluctuations on these profits. At inception of the Group, EADS' foreign exchange hedge position was the result of the combination of the outstanding hedging portfolio of ASM, Dasa and CASA.

EADS manages a long-term hedging portfolio with a maturity of several years covering US dollar sales, mainly from the activities of Airbus. EADS is designating part of the underlying items as the hedged position to cover its US dollar exposure, primarily using foreign currency forwards and option contracts. Apart from plain forwards, the other main currency strategy in place as of 31st December 2001 encompasses synthetic forwards, which are a combination of purchases of US dollar puts and sales of US dollar calls, each with the same notional amount and maturity.

EADS endeavours to hedge the majority of its exposure based on the firm orderbook but with a decreasing hedging proportion according to time. EADS hedges between 50% and 100% of firm sales in US dollar for the following year up to 2008. The coverage ratio may be adjusted to take into account macroeconomic movements affecting the spot and interest rates, as applicable.

Interest rate risk – The Group uses several types of instruments to manage interest rate risk and thus to minimise its financial expenses and achieve a better balance between fixed and variable rate debt or placements.

Hedging instruments that are specifically designated to debt instruments have at the maximum the same nominal amounts as well as the same maturity dates compared to the hedged item, with the exception of a few residual positions with non-material positive mark-to-market effects. In general, EADS is only investing in short-term instruments and/or instruments that are related to a floating interest index in order to further minimise any interest risk in its cash and securities portfolio.

Liquidity risk – The Group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit lines facilities to meet its future commitments. Any excess cash is invested in non-speculative financial instruments, mostly listed securities that are actively traded.

b) Notional amounts and credit risk

The contract or notional amounts of derivative financial instruments shown below do not always represent amounts exchanged by the parties and, thus, are not necessarily a measure for the exposure of the Group through its use of derivatives.

The notional amounts of derivative financial instruments are as follows, specified by year of expected maturity:

	Remaining Period				
in €m	Not exceeding one year	One year up to five years	More than five years	2001	2000
Foreign exchange contracts					
Net forward sales contracts	6,160	19,094	4,800	30,054	16,705
Purchase put options, net	3,290	1,507	0	4,797	4,807
Sale of call options, net	4,184	1,507	0	5,691	9,236
Interest rate contracts:					
Interest rate swaps	287	715	0	1,002	963
CAP purchases	16	45	0	61	144
Floor sales	16	45	0	61	69

EADS may be exposed to credit-related losses to the extent of non-performance by counterparts to financial instruments. EADS has, however, set up a credit line system, where every authorised counterpart (chosen among international financial institutions and corporations) is granted a ceiling for outstanding market transactions. The ceilings are based on the ratings given by established rating agencies and on the equity and profit figures of each counterpart. Exposure with respect to credit lines is regularly checked by the relevant control officers. Due to the quality of the selected counterparts, EADS believes that the overall credit risk related to financial instruments is appropriate.

c) Fair value of financial instruments

The fair value of a financial instrument is the price at which one party would assume the rights and/or duties of another party. Fair values of financial instruments have been determined with reference to available market information at the balance sheet date and the valuation methodologies discussed below. Considering the variability of their value-determining factors and the volume of financial instruments, the fair values presented herein may not be indicative of the amounts that the Group could realise in a current market exchange.

The carrying amounts and fair values of the Group's financial instruments are as follows:

	At 31st December 2001		At 31st December 2000	
in €m	Carrying amount	Fair value	Carrying amount	Fair value
Balance Sheet Treasury Instruments				
Assets:				
Financial assets	4,726	4,726	4,609	4,609
Securities	5,341	5,341	4,682	4,682
Cash and cash equivalents	2,692	2,692	3,240	3,240
Liabilities:				
Financial liabilities	6,500	6,500	5,779	5,779
Derivative Financial Instruments				
Currency contracts with positive fair values	54	54	0	80
Currency contracts with negative fair values	(3,673)	(3,673)	(1,746)	(2,432)
Interest rate contracts with positive fair values	38	38	0	0
Interest rate contracts with negative fair values	(29)	(29)	0	0

The fair value gains and losses at 31st December 2001 on open currency contracts which hedge future foreign currency sales will be transferred from the accumulated other comprehensive income to the income statement when the related transactions occur, at various dates between the balance sheet date and seven years from the balance sheet date.

Financial Assets and Liabilities – Fair values are based on estimates using various valuations techniques, such as present value of future cash flows. However, methods and assumptions followed to disclose data presented herein are inherently judgmental and involve various limitations, including the following:

- fair values presented do not take into consideration the effects of future interest rate and currency fluctuations,
- estimates as of 31st December 2001 and 2000 are not necessarily indicative of the amounts that the Company would record upon further disposal/termination of the financial instruments.

The methodologies used are as follows:

Short-term investments, cash, short-term loans, suppliers – The carrying amounts reflected in the annual accounts are reasonable estimates of fair value because of the relatively short period of time between the origination of the instruments and its expected realisation.

Notes to Consolidated Financial Statements
continued

Long-term debt; short-term debt – The long- and short-term debt are not classified as liabilities held for trading, therefore no fair value computation is exercised.

Securities – The fair value of securities included in available-for-sale investments is estimated by reference to their quoted market price at the balance sheet date.

Currency and Interest Rate Contracts – The fair value of these instruments is the estimated amount that the Company would receive or pay to settle the related agreements as of 31st December 2001 and 2000.

d) Impact of adoption of IAS 39 on Shareholders' equity and individual balance sheet captions
The Group adopted IAS 39 at 1st January 2001. In accordance with IAS 39, the comparative financial statements for periods prior to the effective date of the standard have not been restated. The impact on "accumulated other comprehensive income", a separate category of equity, and on the related balance sheet captions is disclosed in the following tables.

Summary of impacts on "accumulated other comprehensive income"

in €m	Available-for-sale-Investments	Hedging instruments	Total
Balance of other comprehensive income at 31st December 2000	84	–	84
Adoption of IAS 39 at 1st January 2001:			
Gains/losses on remeasurement to fair value	–	(606)	(606)
Deferred income taxes	–	222	222
Balance at 1st January 2001	–	(384)	(384)
Movements in year ended 31st December 2001:			
Gains/losses from changes in fair value	(11)	(1,964)	(1,975)
Deferred income taxes	1	720	721
	(10)	(1,244)	(1,254)
Transferred to income statement	–	311	311
Deferred income taxes	–	(114)	(114)
	–	197	197
Balance at 31st December 2001:			
Gross amount of gains and losses	73	(2,259)	(2,186)
Deferred income taxes	1	828	829
	74	(1,431)	(1,357)
Minority interest		216	
		(1,215)	

The amount of €(1,215) million refers to changes to other comprehensive income caused by hedging instruments after deducting minority interests. It can be tied to the changes to other comprehensive income as stated in the Consolidated Statements of Changes in Shareholders' Equity as follows: €1,215 million comprise €(337) million resulting from the first-time application of IAS 39 and €(878) million that constitute changes in the fair value of hedging instruments during the year. The amount of €74 million comprises the balance as of 31st December 2000 and changes in the fair value of securities of €(10) million, as disclosed in the Consolidated Statements of Changes in Shareholders' Equity, too.

Summary of impacts on individual balance sheet captions on 1st January 2001

in €m	Available-for-sale-Investments	Currency contracts	Interest contracts	Total
Other current assets	–	80	–	80
Provisions (Financial Liabilities)	–	(686)	–	(686)
Subtotal	–	(606)	–	(606)
Deferred income tax	–	222	–	222
Total net of deferred tax	–	(384)	–	(384)

23. SEGMENT REPORTING

The Group operates in five divisions; a description of the products and services, from which each segment derives its revenues, follows:

- **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.

Revenues are allocated to countries based on the location of the customer. Segment assets are allocated based on the location of the respective units. Capital expenditures represent mainly the purchase of property, plant and equipment and the increase in leased assets.

Information with respect to the Group's industry segments follows:

in €m	Airbus	Military Transport	Aero-nautics	Defence and Civil Systems	Space	HQ/ Elimin.	Conso-lidated
2001							
Total revenues	20,549	547	5,065	3,345	2,439	(1,147)	30,798
Share of net profit of associates	(12)	0	0	(14)	(63)	111	22
EBIT pre goodwill amortisation and exceptionals	1,655	1	308	(79)	(222)	31	1,694
Identifiable segment assets (incl. goodwill)	27,264	568	7,187	5,583	3,462	4,651	48,715
Investments in equity method associates	0	0	0	0	0	1,252	1,252
Segment total liabilities	25,532	365	5,869	3,545	2,601	367	38,279
Capital expenditures	1,433	63	281	159	99	161	2,196
Depreciation,amortisation and related impairment losses	1,625	21	278	1,147	331	158	3,560
Goodwill	7,089	0	1,005	1,464	736	148	10,442

2000 pro-forma

Total revenues	14,856	316	4,704	2,909	2,535	(1,112)	24,208
Share of net profit of associates	6	(1)	2	77	(16)	43	111
EBIT pre goodwill amortisation and exceptionals	1,412	(63)	296	(110)	67	(203)	1,399
Identifiable segment assets (incl. goodwill)	21,352	435	6,548	5,857	3,233	4,019	41,444
Investments in equity method associates	0	0	0	125	29	1,164	1,318
Segment total liabilities	19,094	269	5,176	2,983	1,951	1,500	30,973
Capital expenditures	657	55	307	117	145	70	1,351
Depreciation,amortisation and related impairment losses	622	28	226	221	165	278	1,540
Goodwill	3,310	0	1,056	2,675	915	93	8,049

Intercompany sales are principally realised on an arm's length basis and are mainly between Aeronautics and Airbus.

Most assets of the Group are located in the European Union.

EADS uses EBIT pre-goodwill amortisation 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 amortisation expenses of Fair Value Adjustments relating to the EADS Merger, the Airbus Combination and the formation of MBDA, as well as impairment charges. EBIT pre-goodwill and exceptionals is treated by management as a key indicator to measure the segments economic performances.

in €m	2001	2000 pro-forma
Income before financial income, income taxes and minority interests	2,514	200
Dilution gain Airbus UK, MBDA	(2,794)	–
Goodwill amortisation and related impairment charges	1,466	429
Exceptional depreciation (fixed assets)	260	176
Exceptional depreciation (financial assets)	315	–
Exceptional depreciation (inventories)	275	483
Income from investments	(342)	111
EBIT pre goodwill and exceptionals	1,694	1,399

Revenues (by destination)

in €m	France	Germany	Other European Countries	North America	Latin America	Asia	Other Countries	Consolidated
2001	3,521	3,588	6,728	10,394	1,749	3,138	1,680	30,798
2000 pro-forma	3,408	3,461	5,934	6,724	924	2,221	1,536	24,208

24. STOCK-BASED COMPENSATION

Stock Option Plan

The Board of Directors of EADS approved the establishment of a stock option plan for the 11 members of the Executive Committee and senior managers of the Group. Stock options for the purchase of 8,524,250 EADS shares were granted on 12th July 2001 of which 780,000 were granted to the members of the Executive Committee. Approximately 1,600 employees of the Group were granted options, which are only exercisable after a vesting period. The vesting period amounts to two years and four weeks from the date of granting with respect to 50% of the options and three years for the remaining options. The options expire ten years after their grant.

The exercise price is equal to €24.66 representing 110% of fair market value of the shares at the date of grant. The options may not be exercised during the period of three weeks before either the Annual General Meeting or the announcement of annual or semi-annual or quarterly results.

The following table summarises the development of stock options:

	Number of Options 2001	2000
Balance at 1st January	5,375,400	
Additions	8,524,250	5,564,884
Exercised	–	
Forfeited	(597,825)	(189,484)
Balance at 31st December	13,301,825	5,375,400

No compensation expense was recognised in 2001 in connection with the Group's stock option grants.

Employee Stock Ownership Plan (ESOP) 2001
In 2001, eligible employees were able to purchase a maximum of 500 shares per employee of previously unissued shares within the ESOP 2001. The offer was broken down into two tranches which were available for all employees to choose. The subscription price for tranche A was €10.70, calculated as a discount of €1.00 from the lowest market price on the Paris stock exchange on 12th October 2001 (fixed at €11.70), the day the Board of Directors granted the right to purchase shares within the ESOP 2001. The subscription price for tranche B was the higher of the subscription price for tranche A or 80% of the average opening market price for EADS shares on the Paris stock exchange during the 20 stock market days preceding 12th October 2001, resulting in a subscription price of €10.70, too.

During a vesting period of at least one year under tranche A or five years under tranche B, employees are restricted from selling the shares, but have the right to receive all dividends paid as well as have the ability to vote at the annual shareholder meetings. EADS sold 2,017,894 ordinary shares with a nominal value of €1.00 under both tranches. No compensation expense was recognised in connection with the ESOP 2001.

25. RELATED PARTY TRANSACTIONS

Related parties – The Group has entered into various transactions with related companies in 2001 and 2000 that have all been carried out in the normal course of business 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.

Remuneration – The remuneration of Directors and pensions of/other contributions to retired Directors amount to €5.60 million. Additionally exist accruals for pension obligations of €1.87 million. The above remuneration does not include any amounts for the value of options to subscribe for the ordinary shares in EADS granted to or held by the Directors. Reference is made to Note 24 of the financial statements.

EADS has not provided any loans to/advances to/guarantees on behalf of (retired) Directors.

26. INVESTMENT PROPERTY

The Group owns investment property, mainly contributed by Dasa to EADS, that is leased to third parties. The investment property contributed by Dasa was recorded at fair value as of 1st July 2000. For the purposes of IAS 40 disclosure requirements, EADS developed the fair values of investment property based on the values on the opening balance sheet of EADS.

The fair values have been determined using official guideline numbers for land and insured values as well as values reconciled from rental income for buildings. The determination of fair values is mainly supported by market evidence and was performed with regard to the fair values as of 1st July 2000 by a registered independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. As there have only been very minor changes since that date, the Group has not used an independent certifier since then.

Notes to Consolidated Financial Statements continued

Buildings held as investment property are depreciated on a linear basis over their useful life which is mainly around 40 to 50 years. The values assigned to investment property are as follows:

in €m	Net at 31st December 2000	Additions	Disposals	Depreciation/ amortisation	Changes in consolidation scope/ exchange differences	Net at 31st December 2001
Book value of Investment Property	87	11	0	1	0	97

The fair value of the Group's investment property amounts to €98 million (2000: €87 million). Rental income is stated at €12 million (2000: €12 million), direct operating expenses arising from investment property that generated rental income comes to €7 million (2000: €7 million).

27. EARNINGS PER SHARE

Basic earnings per share – Basic earnings per share is calculated by dividing net income attributable to shareholders by the weighted average number of issued ordinary shares during the year.

	2001	2000 pro-forma
Net income attributable to shareholders	€1,372m	€(909)m
Balance of issued ordinary shares at beginning of year	807,157,667	807,157,667
5th December 2001 – Issue of new shares for cash (ESOP 2001)	2,017,894	
Balance of issued shares at end of year	809,175,561	807,157,667
Weighted average number of ordinary shares in issue	807,295,879	807,157,667
Basic earnings per share	€1.70	€(1.13)

For comparative reasons, the Group presents pro-forma earnings per share for 2000. Due to the foundation of the Group in July 2000, accompanied by a significant increase in the number of shares as a result of the initial public offering on 10th July 2000, and the concurrent acquisition by ASM of Dasa and Casa, whose revenues and expenses were not included in the EADS profit and loss statement for the period 1st January to 30th June 2000, the pro-forma number of shares for 2000 is based on the number of issued shares and stock options granted as at 31st December 2000.

Diluted earnings per share – 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 both stock option plans initiated by the Group in 2001 and 2000 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.

	2001	2000 pro-forma
Net income attributable to shareholders	€1,372m	€(909)m
Weighted average number of ordinary shares in issue	807,295,879	807,157,667
Diluted earnings per share	€1.70	€(1.13)

28. NUMBER OF EMPLOYEES

The number of employees at 31st December 2001 is 102,967 as compared to 88,879 at 31st December 2000.

Appendix: Information on principal investments

Airbus

2000	2001	Company	Head office
F	F	Airbus SAS	Toulouse (France)
F	F	Airbus France SAS	Toulouse (France)
	F	Airbus Holding SA	France
F	F	EADS CASA S.A. (Unit: EADS CASA Airbus)	Madrid (Spain)
F	F	SATIC G.I.E.	Colomiers (France)
F	F	Airbus Finance Company Holdings BV	Amsterdam (Netherlands)
F	F	Airbus Finance Company Ltd	Dublin (Ireland)
F	F	EADS Airbus Deutschland GmbH	Hamburg (Germany)
F	F	KID-Systeme GmbH	Buxtehude (Germany)
F	F	Aircabin GmbH	Laupheim (Germany)
F	F	DEX Beteiligungs- und Verwaltungs GmbH	Ottobrunn (Germany)
F	F	ZDW Beteiligungs- und Verwaltungs GmbH	Munich (Germany)
F	F	EADS Airbus Beteiligungs GmbH	Ottobrunn (Germany)
P	F	Airbus Industrie G.I.E.	Blagnac (France)
P	F	AVSA SARL	Blagnac (France)
P	F	AI Participations S.A.R.L.	Blagnac (France)
P	F	Société Commerciale A-300 S.A.SOCA	Blagnac (France)
P	F	Airbus Simulators Services S.N.C. (ASS)	Blagnac (France)
P	F	Airbus Transport International S.N.C. (ATI)	Blagnac (France)
P	F	Airbus Military Company SAS.	Toulouse (France)
P	P	Groupemente Immobilier Aéronautique S.A. (GIA)	France
P	F	Airbus Mauritius limited	Mauritius
E	E	Alexandra Bail G.I.E	France
P	F	Airbus China limited	Hong-Kong
P	F	Aircelle SAS	France
P	F	Airbus Ré S.A.	Luxembourg
P	F	AVSA Canada Inc	Canada
P	F	Airbus North American Holdings Inc. (AINA)	USA
P	F	Airbus Service Company Inc. (ASCO)	USA
P	F	AI leasing Inc.	USA
P	F	Norbus	USA
P	F	AINA Inc.	USA
P	F	128829 Canada Inc.	Canada
P	F	Airbus Industrie Financial Service Holdings B.V. (AIFS)	Netherlands
P	F	Airbus Industrie Financial Service Holdings ltd.(AIFS)	Ireland
P	F	Airbus Industrie Financial Service ltd. (AIFS)	Ireland
P	F	AIFS (Cayman) ltd.	Cayman Isle
P	F	AIFS Cayman Liquidity ltd.	Cayman Isle
P	F	A 320 Financing limited	Ireland
P	F	AIFI LLC	Isle Of Man
		Frusco limited	Ireland
		Shadyac Limited	Ireland
	F	Airbus UK Limited	UK
	F	Airbus Invest	Toulouse (France)
	F	EADS Aéro	Toulouse (France)
	F	EADS Star Real Estate SAS	Boulogne (France)
	E	Tenzing communication inc	USA

Additionally are consolidated 29 SPCs.

Defence & Civil Systems

2000	2001	Company	Head office
–	–	EADS Deutschland GmbH Verkehrsleittechnik TB67	Unterschleißheim (Germany)
F	F	FmElo Elektronik- und Luftfahrtgeräte GmbH	Ulm (Germany)
F	F	Hagenuk Marinekommunikation GmbH	Flintbek (Germany)
F	F	EUROBRIDGE Mobile Brücken GmbH	Friedrichshafen (Germany)
F	F	EADS Deutschland GmbH – Verteidigung und Zivile Systeme	Ulm (Germany)
F	F	Dornier GmbH – Verteidigung und Zivile Systeme	Friedrichshafen (Germany)
F	F	EADS Funkkommunikation GmbH	Ulm (Germany)
F	F	Ewation GmbH	Ulm (Germany)
F	F	Matra Aerospace Inc. (M.A.I.)	Frederick Maryland (USA)
F	F	Fairchild Controls Corporation	Frederick Maryland (USA)
F		Germantown Holding Company	Frederick Maryland (USA)
F	F	Manhattan Beach Holdings Co.	Frederick Maryland (USA)
F	F	Matra Systemes & Information	Velizy (France)
F	F	APIC	Arcueil (France)
F		G 2 I	Velizy (France)
F	F	EADS Services	Boulogne (France)
	F	Pentastar Holding	Paris (France)
	F	Aviation Defense Service S.A.	Saint-Gilles (France)
F	F	M.C.N. SAT HOLDING	Velizy (France)
F	F	MULTICOMS (MNC Sat Services)	Sèvres (France)

F: Fully consolidated P: Proportionate E: Equity method

Appendix: Information on principal investments continued

2000	2001	Company	Head office
Defence & Civil Systems continued			
F		Matra Global Netservices (Grolier Network)	Boulogne (France)
F	F	International Test & Service	Velizy (France)
	F	TYX Corp.	Reston, VA, USA
	F	ARC	CA, USA
	F	ARC-IAI	San Antonio, TX, USA
F	F	M.P. 13	Paris (France)
F	F	EADS Matra Datavision S.A.	Paris (France)
F	F	EADS Matra Datavision International	Les Ulis (France)
F	F	EADS Matra Datavision Ltd	CovAddition (UK)
F	F	EADS Matra Datavision AG	Regensdorf (Suisse)
F	F	EADS Matra Datavision Benelux	Brussels (Belgium)
F	F	EADS Matra Datavision Asia Pacific	Wanchai (Hong Kong)
F	F	EADS Matra Datavision B.V.	Leiden (Netherlands)
F	F	EADS Matra Datavision GmbH	Munich (Germany)
F	F	EADS Matra Datavision Iberia	Madrid (Spain)
F	F	EADS Matra Datavision Inc.	Andover (USA)
F	F	EADS Matra Datavision Kk	Tokyo (Japan)
F	F	EADS Matra Datavision SpA	Turin (Italy)
F	F	Open Cas Cade	Paris (France)
	F	ETP SPA	Turin (Italy)
F	F	Matra Defense	Velizy (France)
F	F	Matra Holding GmbH	Frankfurt (Germany)
P	P	MBDA SAS	Velizy (France)
P	P	MBDA Management S.A.	Velizy (France)
P	P	ALKAN	Valenton (France)
P	P	MBDA France	Velizy (France)
P	P	MBDA UK Ltd.	Stevenage, Herts (UK)
P	P	Matra Electronique	La Croix Saint-Ouen (France)
F	P	MBDA Missiles S.A.	Chatillon sur Bagneux (France)
P	P	MBDA Inc	Westlack, CA (USA)
	P	MBDA Italy SpA	Roma (Italy)
	P	MBDA Treasury	Jersey (UK)
	P	Marconi Overside Ltd.	Chelmsford (UK)
	P	AMS Dynamics Ltd.	Guernsey (UK)
P	P	Celerg	Le Plessis-Robinson (France)
F	F	Celerg international	Le Plessis-Robinson (France)
F	F	International de systemes propulsifs	Paris (France)
F	F	LFK – Lenkflugkörpersysteme GmbH	Unterschleißheim (Germany)
F	F	TDW – Ges. für verteidigungstechnische Wirksysteme GmbH	Schrobenhausen (Germany)
F	F	TAURUS Systems GmbH	Schrobenhausen (Germany)
P	P	Bayern-Chemie Gesellschaft für flugchemische Antriebe mbH	Aschau/Inn
P	P	Propulsion Tactique S.A.	La Ferte Saint Aubin (France)
P	P	TDA – Armements SAS.	La Ferte Saint Aubin (France)
P	P	Forges de Zeebrugge S.A.	Herstal-Liege (Belgium)
F	F	EADS Defence & Security Networks	Bois d'Arcy (France)
F	F	Matra Radio Systems	Madrid (Spain)
F	F	AEG Mobile Communication	Ulm (Germany)
F	F	Matra Communications Mexico	Mexico DF (Mexico)
F	F	EGT	Bruxelles (Belgium)
F	F	MC Denmark	Copenhague (Denmark)
F	F	MC Italy	Milan (Italy)
F	F	Matra Comunicaciones de Espana	Barcelona (Spain)
E		Nortel Networks Germany GmbH & Co KG	Friedrichshafen (Germany)
F	F	Matra Nortel Holding (MNH)	Paris (France)
F	F	MATRAnet	Velizy (France)
F		MATRAnet Inc.	Redwood shores, CA (USA)
F	F	Matra Communication USA Inc	Dallas, Texas (USA)
F	F	Intecom Inc	Dallas, Texas (USA)
F	F	Intecom Holding ULC	Dallas, Texas (USA)
F	F	Intecom Canada Inc	Dallas, Texas (USA)
F	F	Pyderion Contact Technologies Inc.	Dallas, Texas (USA)
	F	Cogent	UK
E		Matra Nortel Communications	Quimper (France)
Space			
		Aerospatiale Matra Lanceurs Stratégieuses et Spaciaux	Paris (France)
F	F	Amanthea Holding B.V.	Amsterdam (Netherlands)
P	P	Astrium GmbH	München (Germany)
P	P	Astrium Ltd.	Stevenage (UK)
P	P	Astrium N.V.	The Hague (Netherlands)

F: Fully consolidated P: Proportionate E: Equity method

	2000	2001	Company	Head office
Space continued				
	P	P	Astrium SAS	Toulouse (France)
		P	Computadoras, Redes e Ingenieria SA (CRISA)	Madrid (Spain)
	F	F	EADS CASA S.A. (Unit: EADS CASA Space)	Madrid (Spain)
	F	F	EADS Deutschland GmbH – Space Services	Munich (Germany)
	F	F	EADS Dornier Raumfahrt Holding GmbH	Munich (Germany)
	F	F	EADS Launch Vehicles	Vèlizy (France)
	F	F	Global DASA LLC	New York (USA)
	E	E	Loral Dasa Globalstar L.P.	New York (USA)
	P	P	Matra Marconi Space UK Ltd.	Stevenage (UK)
			Matra Space Systems Participations BV	The Hague (Netherlands)
	P	P	MMS Space Holdings N.V.	Amsterdam (Netherlands)
	P	P	MMS Systems Ltd	Stevenage (UK)
	E	E	Nahuelsat S.A.	Buenos Aires (Argentina)
	F	P	NRSCL Infoterra Ltd	Southwood (UK)
			Sodern	Limeil-Brevannes (France)
			Spot Image	Toulouse (France)
		P	TESAT-Spacecom GmbH & Co. KG	Backnang (Germany)
Military Transport Aircraft				
	F	F	EADS CASA S.A. (Unit: EADS CASA Military Transport Aircraft)	Madrid (Spain)
Aeronautics				
	F	F	Elbe Flugzeugwerke GmbH	Dresden (Germany)
		F	EADS EFW Beteiligungs- und Verwaltungsgesellschaft GmbH	Munich (Germany)
	F	F	EADS Sogerma S.A.	Mérignac (France)
	F	F	EADS Seca S.A.	Le Bourget (France)
	F	F	Barfield B.C.	Miami, Florida (USA)
	F	F	EADS Revima S.A.	Tremblay en France (France)
	F	F	Composites Aquitaine S.A.	Salaunes (France)
	F	F	Maroc Aviation S.A	Casablanca (Morocco)
	F	F	Noise Reduction Engineering B.C.	Washington D.C. (USA)
	F	F	Aerobail GIE	Paris (France)
	F	F	EADS Aeroframe services LLC	Lake Charles, Louisiana (USA)
		F	EADS Sogerma Tunisie	Monastir (Tunisia)
	F	F	Eurocopter Holding S.A.	Paris (France)
	F	F	Eurocopter S.A.	Marignane (France)
	F	F	Eurocopter Deutschland GmbH	Munich (Germany)
	F	F	American Eurocopter Corp.	Dallas, Texas (USA)
	F	F	Eurocopter Canada Ltd.	Ontario (Canada)
	F	F	Eurocopter South East Asia	Singapore
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	F	F	EADS Socata S.A.	Le Bourget (France)
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	P	P	ATR GIE	Toulouse (France)
	E		Fairchild Dornier Luftfahrt Beteiligungs GmbH	Oberpfaffenhofen (Germany)
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	F	F	EADS Deutschland GmbH, LO – Liegenschaften OTN	Munich (Germany)
	F	F	EADS Deutschland GmbH, FO – Forschung	Munich (Germany)
	F	F	EADS Raumfahrt Beteiligungs GmbH	Ottobrunn (Germany)
	F	F	DADC Luft- und Raumfahrt Beteiligungs AG	Munich (Germany)
	F	F	Dornier GmbH – Zentrale	Friedrichshafen (Germany)
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	E	E	Dassault International France	Vaucresson (France)
	E	E	Dassault Falcon Jet and subsidiaries	Teterboro NJ (USA)
	E	E	Sogitec Industries	Suresnes (France)
	E	E	Dassault Falcon Service	
	E	E	IPS	
	E	E	Dassault Aero Service	
	E	E	Dassault Assurances Courtage	
	E	E	Dassault International Inc	Paramus NJ (USA)
	E	E	Société Toulouse Colomiers	
		F	Airbus Finance Company Holding B.V.	Dublin (Ireland)
	F		S.C.I. Matra Toulouse	Toulouse (France)

F: Fully consolidated P: Proportionate E: Equity method

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Financial calendar 2002

Global Investor Forum:
7 – 8th February 2002 Marignane, France

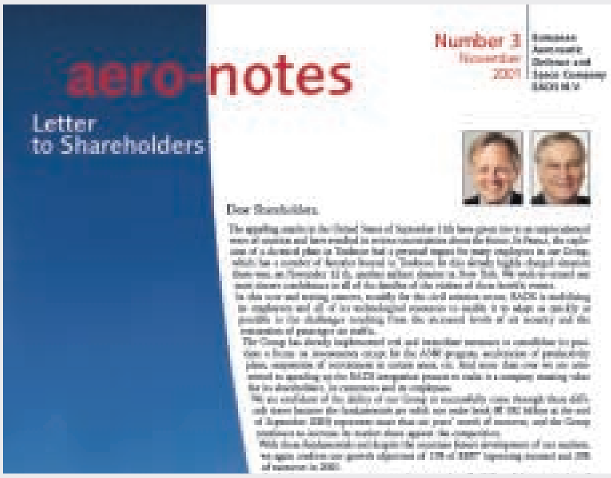
Annual Results Presentation:
18th March 2002

Annual General Meeting:
17th May 2002 Amsterdam, The Netherlands

Interim Report Q1 – 3 months results:
17th May 2002

Interim Report Q2 – Half Year results:
25th July 2002

Interim Report Q3 – 9 months results:
14th November 2002



www.eads.net

Annual General Meeting in Amsterdam, 10th May 2001

Key information for Shareholders
An investor relations team is dedicated to provide periodic information to shareholders whether they are individual shareholders, employees or institutions.

In 2002, EADS will continue to enhance shareholders communication with the publication of quarterly full results.

The Investor Relations team also offers a variety of information sources updating the shareholders on EADS progress such as the quarterly newsletter called "Aeronotes" and a monthly investor communiqué available on EADS website starting in April 2002.

The EADS Web site, www.eads.net, also provides a wide range of information including financial topics. Shareholders can contact us everyday on our special toll-free lines.

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