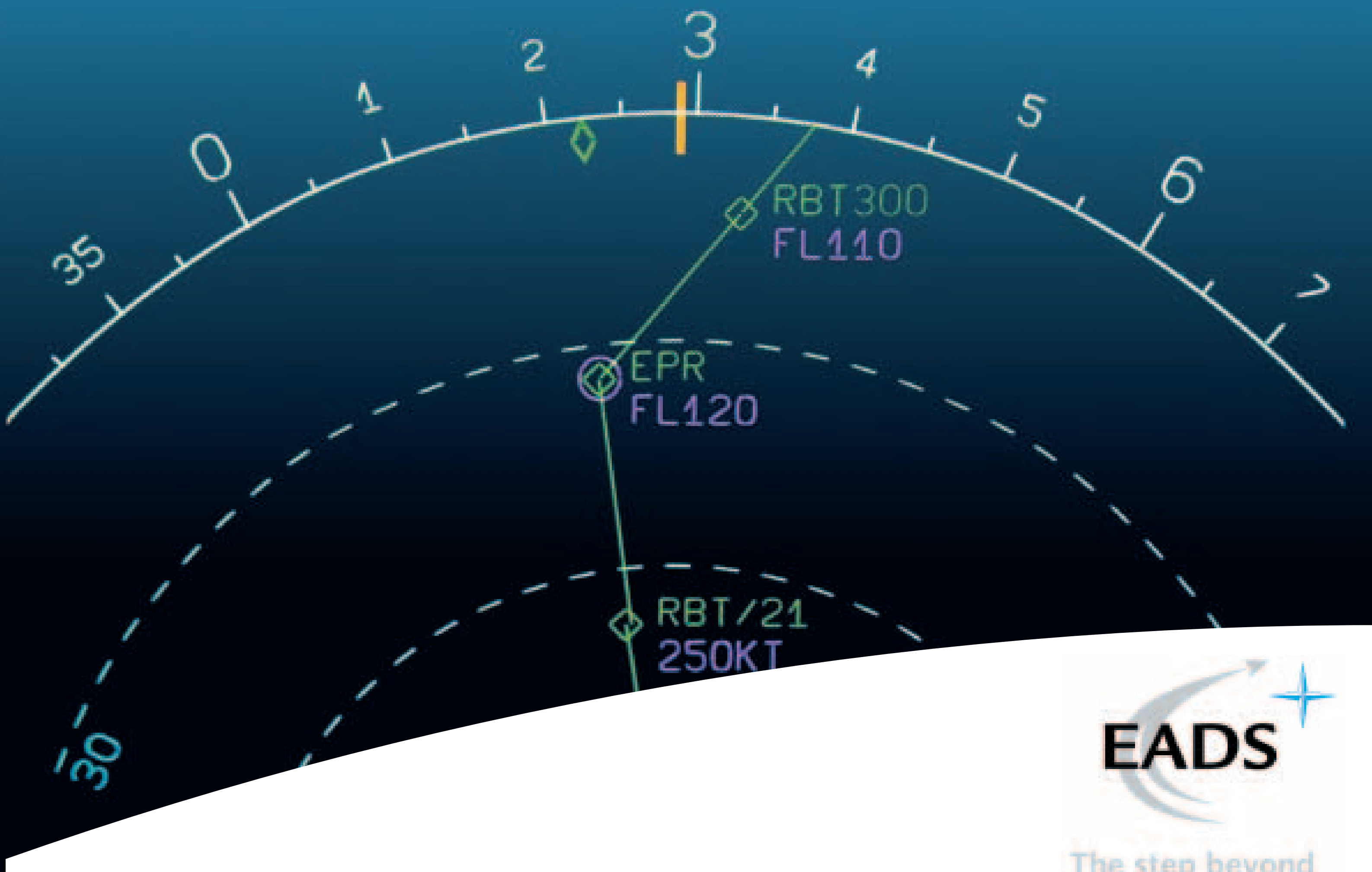
European Aeronautic Defence and Space Company EADS N.V.

Annual Report 2002

Delivering measurable results



EADS

The step beyond

EADS at a glance

Airbus p22 – 27

The Airbus family of passenger jets ranges in size from 100 to 555 seats. During 2003, the company expects to consolidate its leadership as the world's largest supplier of jet airliners in terms of deliveries. In 2006, the product range will be joined in service by the 555-seat A380, the largest civil aircraft ever designed, for which production began in 2002.

A340-600

Military Transport Aircraft p28 – 29

The Division manufactures the highly successful C-212, CN-235 and C-295 light and medium military transports which are in service with some 50 countries around the world. It is also responsible for the A400M, a new strategic heavy-lifting military freighter which makes use of Airbus technology. The launch of this programme is expected in 2003.

C-295

Aeronautics p30 – 33

The Division's business activities include Eurocopter (the world market leader in commercial helicopters), Eurofighter combat aircraft, ATR regional airliners, light aircraft, service and maintenance, passenger-to-freighter conversions and aerostructures.

EC135

Defence & Civil Systems p34 – 37

The Division includes MBDA, the world's second-largest missile company. It also manufactures sophisticated defence electronics and secure communications systems for civil and military applications. The EADS Services business unit caters to the growing demand for outsourced military functions.

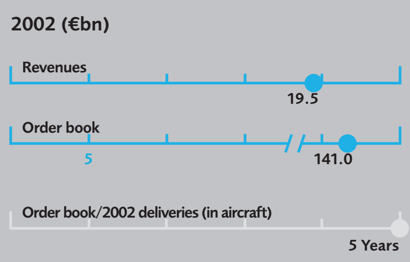
Taurus

Space p38 – 41

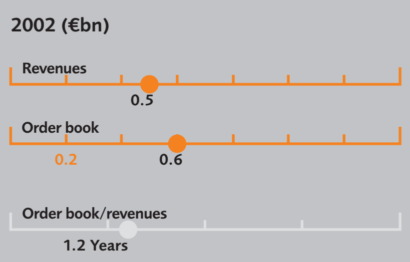
The Space Division is active in all aspects of today's space industry – from the Ariane launchers to telecommunications and scientific satellites and services through Astrium subsidiary. It is involved in many of the most advanced programmes in the field, including the International Space Station ISS and the future European global satellite navigation system, Galileo.

Envisat

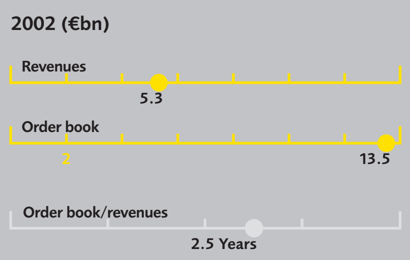
- A380 manufacturing begins
- 120 A319s ordered by easyJet in 2002s largest purchase
- Four major flag carrier airlines join the Airbus family
- Year-end order book represents five years' production at current rates



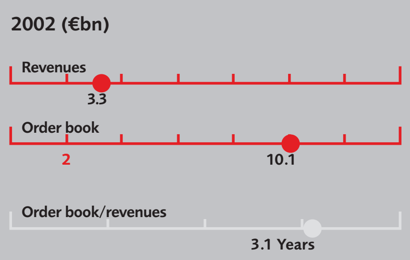
- CN-235 chosen for the US Coast Guard's Deepwater programme
- Brazil selects the EADS CASA medium transport aircraft to support the Amazon Protection System
- Work sharing on the A400M programme agreed
- Air Refuelling Boom system development started



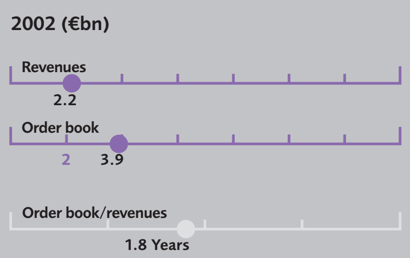
- Eurocopter wins 60% of world commercial helicopter market deliveries
- Orders of Tiger in Australia and NH90 in Norway
- First production Eurofighters rolled out; export sales drive under way
- EADS EFW delivers 50th passenger-to-freighter conversion to FedEx



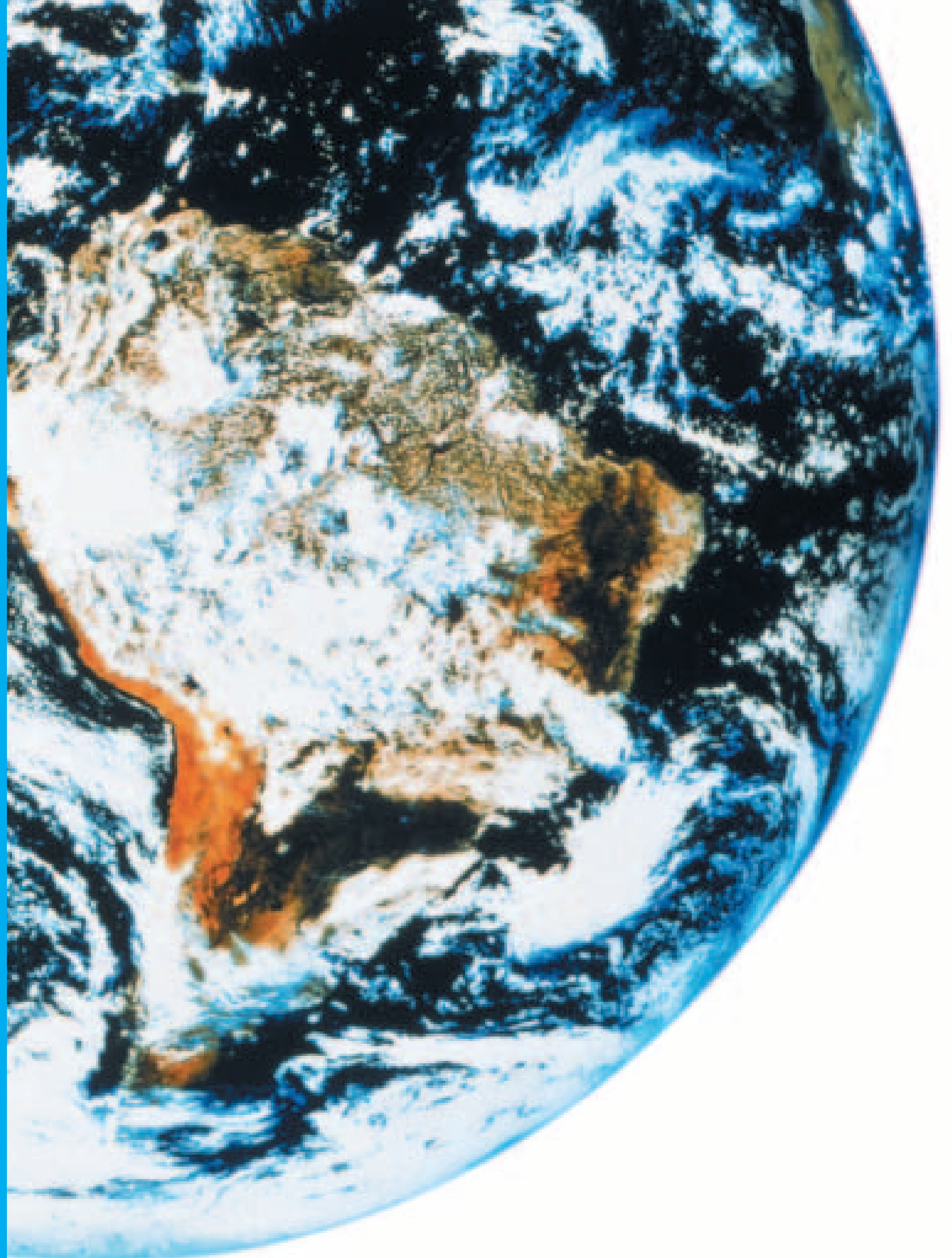
- MBDA books Meteor missile contract (€0.9 billion EADS share)
- EADS LFK, the German missile subsidiary, signs €485 million Taurus missile contract with Germany
- Preferred bidder for Herkules with German army
- EADS command and control systems selected for the German K130 corvette
- Strategic restructuring, achieves return to profit



- Paradigm is the preferred bidder for the Skynet 5 defence programme
- Ariane wins 11 of the year's 18 commercial launch contracts in the world
- Difficulties compounded by market deterioration
- Decision to acquire full control of Astrium announced



EADS in 2002



From top to bottom
A380
A400M
Eurofighter
NH90
Meteor
Ariane 5

Contents

European Aeronautic Defence and Space Company

EADS is the world's second largest aerospace and defence company, with revenues of €29.9 billion and a workforce of nearly 104,000. It is a market leader in commercial aircraft, defence technologies, helicopters, space, military transport and combat aircraft, as well as related services. Its family of brands includes Airbus, Eurocopter, the world's leader in commercial helicopters, MBDA, the world's No 2 missile company and Astrium, the European leader in Space. EADS is also the largest partner in the Eurofighter consortium and will head the forthcoming A400M military transport aircraft programme.

The Company has more than 70 facilities in France, Germany, Spain and the UK, and is active in markets around the world, including the US, Eastern Europe and Asia.

For shareholders, employees and customers around the world, EADS is committed to delivering measurable results.

		2002	2001***	2000
Revenues	€m	**29,901**	30,798	24,208
EBIT* (Earnings before interest and taxes)	€m	**1,426**	1,694	1,399
Earnings per share**	€	**0.87**	1.00	–
Dividend per share	€	**0.3**	0.5	0.5
Net cash position	€m	**1,224**	1,533	2,143
Order intake	€m	**31,009**	60,208	49,079
Order book	€m	**168,339**	183,256	131,874
Workforce (number of employees)		**103,967**	102,967	88,879

*Unless otherwise indicated, EBIT figures presented in this report are pre-goodwill and exceptionals
**Pre-goodwill amortisation and exceptionals
***Airbus 100% consolidation from 2001

Measurable results in 2002

Revenues per employee: €288,000
Airbus deliveries in 2002: 303
Number of Airbus customers: 182
Airbus – order market share in units: 54%
Eurocopter – commercial market share in value: 60%
Merger Integration projects implemented: 672
Syndicated credit line: €2.85bn
Revenues outside Europe: 52%
R&D as % of revenues: 7%

Delivering products that perform

With customers in five continents, EADS supplies some of today's most advanced technology in the fields of jet airliners, military aircraft, helicopters, defence and civil systems and space launchers, satellites and infrastructure.

In almost every part of the aerospace and defence market, you will find EADS products and services performing a vital service for our customers.

They range from light civil aircraft to advanced military weapons systems, from helicopters to space services and from jet airliners to fleet support facilities. And increasingly, they are winning strong positions – often, outright leadership – in some of the world's most demanding markets.

The technology may be sophisticated, but the reason is simple. Our products deliver the kind of competitive, cost-effective and innovative technology that customers require.

The "Airbus family", for example. A line of jet airliners from corporate jets to the future 555-passenger A380 – the largest airliner ever – which has been largely designed in partnership with airline users and airport authorities.

In response to their expectation, Airbus has been able to apply innovative technologies like fly-by-wire and composites-based construction to achieve measurable, practical improvements in economic and environmental performance as well as operational convenience and passenger comfort. This focus on meeting customer needs pays off: Airbus has increased its share of deliveries from 29% in 1998 to 44% in 2002 and is expected for the first time to overtake its major competitor in 2003.

Eurocopter's is a similar success story. It holds 60% of the global market for civil and parapublic helicopters revenues, thanks largely to the quality of its products – and to the fact that the range covers more than 80% of all possible customer requirements.

On the Defence side, governments are under ever more pressure to find ways of strengthening their national defence cost effectively and to counter evolving threats. In this area, EADS is a world-class provider – and defence represents a growing proportion of our business.

The Eurofighter/Typhoon is Europe's largest collaborative weapons procurement programme, covering orders and options for over 700 aircraft and involving 400 suppliers all across Europe. The first production unit of this outstandingly versatile combat aircraft is now used by the German Airforce for training purposes.

Eurocopter also produces some of today's most potent military helicopters, including the Tiger for combat, and the NH90 for transport, which have already been ordered by eight governments.

The future A400M heavy military transport aircraft has been chosen by seven European nations in the face of fierce international competition – it opens the way to major pan-European procurement opportunities.

And we also provide some of today's most advanced missiles, systems and defence electronics, including the new Meteor air-to-air missile, ramjet powered in order to maximise the "non-escape-zone", the Eagle MALE (Medium Altitude Long Endurance) unmanned reconnaissance drone and the Tetrapol secured digital telecommunications system.

Add the increasing importance of satellites in integrated network based defence systems to our space and ballistic launchers expertise – unique in Europe – and you will begin to sense what a big, valuable and growing part EADS products play in the performance of our clients' missions.

Creation
Technical advances are at the heart of EADS products. New helicopter rotor blade systems will deliver less noise and smoother and more economical performance.

Build
The Eurofighter is one of today's most sophisticated weapons systems, and will be at the heart of European defence for many years to come.

Delivery
Freighter conversions of Airbus aircraft are ideal for today's transport needs, as well as giving added service life – and value – to customers' fleets.

Designed to deliver

Product safety
Operational reliability
Family flexibility
Cross-type commonality
Passenger comfort
Fuel economy
Noise reduction
Residual value

Delivering a more efficient organisation

Organisational synergies and better ways of working are leveraging EADS existing technologies, skills and human resources and creating a group that can match the best in the world – in every field of activity.

The foundation of EADS brought together a unique team of companies – each with its own history, skills and resources.

It built on a foundation of a strong partnership with well-proven capabilities across the whole field of aerospace – from fundamental research and development through design, manufacture, marketing and customer support.

But it also created a unique opportunity for a step-change in efficiency and productivity through the sharing of knowledge, technology and commercial leverage. And we are pursuing that opportunity for all we are worth.

We have, for example, established EADS International – a dedicated marketing team with a wealth of specialised local and international knowledge, that is tasked with driving export sales for all parts of the group – and that is already proving highly successful in a number of new markets.

Another early management decision was to explore ways of adding value to the Group by exploiting cross-group synergies. No fewer than 672 projects have been launched to cut costs, improve working methods and increase profitability.

One area covered is research and technology – a particularly vital focus of concern for EADS, whose future depends absolutely on bringing innovative techniques and products to market. Our Industrial Research and Technology group has conducted an extensive audit of all capabilities within EADS, and has begun creating a structure – balancing central and decentralised resources – within which they can be harnessed to the full.

We have created a cross-divisional R&T network to identify areas of wide application to our businesses, to develop ideas and ways of sharing them – and to help us concentrate our investment in innovation where it can yield the best results.

At the same time, we have fundamentally re-engineered our sourcing strategy. Bought-in materials and components represent by far the largest cost element in our products and an integrated approach allows us to maximise the effectiveness of purchasing by leveraging our volumes.

The emphasis is on developing closer relationships with suppliers who will become more committed to EADS and its global business perspective. This means involving them at earlier stages in projects, working with them on a risk and revenue sharing basis and – most important of all – continuing evaluation of their performance.

Today, we're implementing more than 300 projects in the area of procurement to maximise the efficiency of the Group. Already, they have created some €190 million of savings – and by 2004, they will be making an estimated €300 million impact on our EBIT line.

Creation
Sharing the Group's rich technological resource base across divisional and international boundaries gives EADS a solid competitive advantage.

Build
Managing effective international partnerships – as in the case of Eurofighter – takes a special kind of skill. Few have more of it than EADS.

Delivery
The right part to the right place at the right time – and the right price. Improved procurement systems are one of the main assets of EADS today.

Doing what we do, better

Best practice development

Cross-divisional initiatives

Interdisciplinary teamwork

Focused R&T

Group procurement

Supplier partnerships

International customer support

Focus on customer needs

Total contract capability

Delivering a stronger base for future growth

Future success depends on keeping ahead of customers' needs, managing technological change and creating a working environment in which the best brains can flourish, develop and prosper. EADS is committed to all these – and more.

It takes more than a strong business today to prepare the success of tomorrow.

So one of our most important tasks is to build on the assets we have already, and to ensure that the company – like its products – undergoes constant improvement.

Our strategy aims to optimise our portfolio of businesses, to help us develop new business opportunities through cross-divisional products, and to focus attention on particularly important countries and regions – currently the US, the UK, Russia and China.

Another key factor is research and technology. The cost-effectiveness of our R&D programmes is outstanding within our industry; and we patented more than 350 new inventions during the year. Among the many achievements in 2002, the highlights included the testing of an innovative helicopter rotor blade offering reduced noise, a "flying eye" micro-aerial vehicle for reconnaissance and surveillance and an advanced, user-friendly ultrasonic test system for assembly line and maintenance operations.

But if strategic planning and technology are important, it's the people within the company who determine their success or failure – and the best guarantee for our future growth lies in our ability to attract, retain and develop the best employees in our industry.

Here, too, the results are encouraging.

The 2002 Universum Graduate Survey – an independent annual study – shows that EADS has leapt from 23rd to 9th place as one of the preferred pan-European employers for engineering and science graduates. This confirms that we are increasingly seen as a major "employer brand" among this critical audience – and probably explains why we were able to recruit some 2,326 of Europe's brightest graduates in 2002.

We have radically reorganised our Human Resources function to unlock the full potential of the diversity of cultures and qualifications among the group's employees. We have created a single "employment market", open to all employees, who are encouraged to find the roles that best fit their skills and ambitions, in the location of their choice – as well as participating in a wide range of courses designed to help them in developing their own careers.

We have led the way in pioneering flexible working arrangements which mean that even in a downturn like the current one, we are able to adapt our capacity significantly without major lay-offs; and we have negotiated common pay structures, incentives and share option schemes across the entire Group, to ensure that our people can share in our success.

With outstanding products, a clear strategy and an expert and motivated workforce, EADS is in excellent shape to face the challenges – and seize the opportunities – of the future.

And to continue delivering measurable results – to customers, employees, shareholders and the wider community – for years to come.

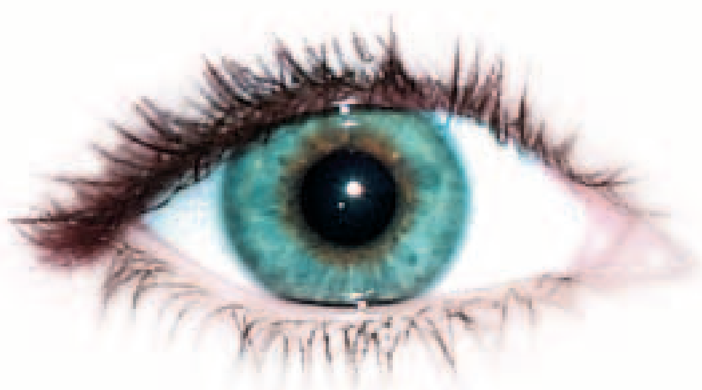
Creation
Defence technologies can improve civil products – and vice versa. An EC135 is just one of the products that make Eurocopter a world leader.

Build
Airbus has revolutionised large aircraft manufacturing for efficiency and resilience in cyclical downturns. Here, wings are unloaded from the special Beluga transport that links our production sites.

Delivery
Students on a visit to Astrium. EADS is increasingly seen as one of the best employers in Europe, offering a bright future for the best graduates.

A clear view of our technological strengths

Integrated Smart Products
Virtual Product Engineering
The Friendly Airframe
Unmanned Aerial Vehicles
Environmental Design
Space Probes
Satellite Communications
Robust Intelligent Systems



Manfred Bischoff (right)
Chairman
Jean-Luc Lagardère † (left)
Chairman

Message from the Chairmen

On 14th March 2003, Jean-Luc Lagardère died in Paris at the age of 75. As a great industrial leader and aerospace visionary, Jean-Luc Lagardère had played a key role in almost all major developments in the European aerospace industry for the last 40 years. He paved the way for European integration in aerospace and defence, by initiating the merger of Matra Hautes Technologies and Aerospatiale, and was a key promoter of the creation of EADS in the year 2000.

2002 results

We are glad to report that EADS showed great resilience in the face of global economic weakness and serious political and military uncertainties.

For the second year running, we exceeded our financial targets and reinforced our competitive position, testifying not only to the Group's ability to respond proactively to challenging market conditions, but also to its future potential. Cost-saving programmes and new corporate structures are producing greater efficiency, and changes at headquarters have been finalised. The integration of three companies into one is now completed, and the benefits become increasingly apparent. The Board of Directors has closely followed the development of the Group's financial status, the Group portfolio and the business development of each Division. Restructuring needs, accounting principles, personnel, organisational and other major issues have been discussed and decided in an atmosphere of partnership and trust.

Divisional highlights

Airbus delivered 303 aircraft, slightly ahead of forecast, and its order intake exceeded turnover. For 2003, production should be maintained at about the same level, assuming no major change in the industry's environment. The Company continues to win new customers, and will be ideally placed to benefit when growth in air travel resumes. At that time, too, the A380 will be nearing service entry, and will substantially enhance our competitive position.

In the defence business, there are hopeful signs of growth, with national budgets rising in the UK and France and a number of European programmes agreed – notably the Meteor air-to-air missile, whose development contract was signed at the end of 2002. Moreover the A400M military transport aircraft contract, which will be vital in out-of-region conflicts, is now under final negotiations with its customers. The Eurofighter combat aircraft, the Tiger military helicopter and the NH90 transport helicopter are about to start serial production.

Drastic reorganisation and improvement programmes will continue in the space business, where action is being taken to restore the Division to profitability in 2004 following the slump in launch and satellite activity of recent years.

Financial

Our strategic flexibility is underpinned by a strong cash position, and we have begun to address the bond markets to establish EADS as a reliable capital market partner; we have continued to make arrangements to protect the Group against volatility in USD vs EUR exchange rates in the foreseeable future.

For the past two and a half years, we have been transforming EADS with the aim of ultimately generating double-digit EBIT margins. We remain confident that this target can be reached, provided only that a stable economic and political environment can be re-established. The lack of such an environment is a temporary setback, but it does not weaken our determination to surpass this target soon.

Outlook

Meanwhile, the Group is in excellent shape. It has world-class products and services, leading-edge technologies, a skilled and enthusiastic multi-national workforce, international operations and an increasingly global and appreciative customer base. While remaining cautious about the immediate future, we remain committed to our strategic goals of developing our broad portfolio of civil and defence products and of consolidating our increasing stature as global players in all our various activities. Substantial value is being built up in the business; and although this value is not yet fully appreciated by the markets, we expect the share price to reflect it in the eventual cyclical upturn.

Manfred Bischoff
Chairman

Jean-Luc Lagardère †
Chairman

A tough year for the aerospace industry around the world confirmed the strength and potential of EADS in all its markets. We need to remain alert and flexible in an uncertain world, but we are taking decisive action to cut costs, win new contracts and build shareholder value for the future.

Q:
Can you give us an overview of how EADS coped with 2002?

A:
2002 was undoubtedly a difficult year for our industry. Global economic slowdown and geopolitical instability with new terrorist threats affected businesses throughout the world, and we were no exception: our operating businesses have been specially hit since the end of 2001 by the passenger air traffic slump and the set-back on commercial space market.

At the same time, we can point real successes during the year, and these should not be overlooked. Despite a difficult environment, we have been able to deliver more than what we promised. We showed our capability to react and adjust to the uncertainties and at the same time we continued to pursue our strategy of global leadership.

First we have once again met – and in some cases exceeded – our financial targets. We maintained a net cash position of over €1.2 billion, and we have slightly surpassed our EBIT target.

Second, we have made real progress in building EADS up as a strong, united company, with a coherent management structure and with a clear strategy fit to face future market demands by enhancing profit growth potential. This was shown through our continued investment in the development of the 555-seat Airbus A380 and of new products adapted to emerging threats, like the European Unmanned Aerial Vehicle Eurohawk, the AGS (Air Ground Surveillance System) and the naval base cruise missile Scalp Naval. The integration phase is clearly over, and we can go forward as a fully integrated Group.

Q:
Last year, you spoke of building up the Defence side of the business as a strategic priority. How is this working out?

A:
We have to bear in mind that creating, marketing and managing defence projects take years to mature, and are subject to all kinds of political uncertainties and changes. But yes, we're beginning to see rewards from our efforts to develop our Defence business.

During the year, we completed the formation of MBDA, the second-largest missile systems company in the world, together with our partners BAE Systems and Finmeccanica. A major milestone was achieved with the signing of the development contract for the European Meteor programme in late December (€0.9 billion EADS share). This new generation air-to-air missile, powered by a ramjet, will give outstanding air superiority to all European fighter aircraft. The selection by the UK MoD of our Paradigm entity for the Skynet 5 project as the preferred bidder is likely to have a very significant impact on our breakthrough into all the European markets and even NATO. Despite the difficult situation in Germany, the A400M programme seems now secured as Germany reduced its off-take but committed to go-ahead for 60 Aircraft. This €18 billion programme will generate profit growth and will trigger synergies with Airbus civil activities. Other major defence successes were helicopter orders: 22 Tiger in Australia, a reference market for weapons acquisition and 14 NH90 in Norway.

Additionally we made inroads in new markets, particularly the US. The selection as a major supplier to Lockheed Martin for the US Coast Guard Deepwater programme and also the invitation to tender for the $20 billion air tanker programme of the US Airforce underline our credibility as a potential defence supplier to the US. The establishment of a North America EADS holding company will strengthen our presence, improve our market access and is a clear commitment to our US strategy.

Philippe Camus (left)
Chief Executive Officer
Rainer Hertrich (right)
Chief Executive Officer

Q:
How did the downturn affect your Civil businesses?

A:
Almost all our civil businesses had some progress to report, but also disappointments such as the failure of the maiden flight of the new Ariane 5 ESCA. 2002 was the confirmation of Airbus leadership and products supremacy. In a market characterised by lacklustre air traffic figures and airlines' financial difficulties, Airbus has quickly adapted production to market demand and preserved high profitability and a sound balance sheet, while delivering 303 aircraft – slightly ahead of target.

Although in terms of total gross order intake (551 aircraft) the 2002 global market was down by 22% compared to 2001, Airbus proved its enhanced competitiveness by an order intake of 300 units (233 units net). This down-cycle is definitely harsh and unpredictable, but it is certainly not the first one in Airbus' 30-year history and this time, the company is in even better shape to manage it. Progression of market share and solid order book allow management to secure stability in a world of uncertainty and to benefit from scale, while permanent efforts to improve productivity are successfully pursued.

While managing the consequences of the downturn, the Airbus product portfolio has been extended by the entry into service of the A340-600 and certification of the A340-500 and A318. Airbus has also won new clients such as Air New Zealand, South African Airways or the British low-cost carrier easyJet and has been continuing to develop the very large future aircraft A380 on track for entry into service into 2006. Airbus is now entering the peak R&D and capital expenditures for this programme, which it has the ability to self-finance. Eurocopter has once again enjoyed an excellent year on the civil and parapublic markets and benefited from increased demand from security forces, especially in the US, in the wave of the events of 11th September 2001. Eurocopter strengthened its worldwide leadership with a worldwide civil and parapublic revenue market share of 60%, having shown constant improvement from its 34% market share in 1995.

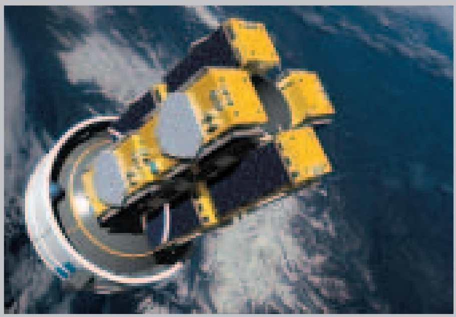
Q:
So much for the successes. What about the challenges?

A:
The Space business is certainly the most challenging one. For the past two years we have been facing industry overcapacity in a market that has simply collapsed from 20–25 civil satellites ordered a year to six in 2002. We have to adapt our organisation to lower demand – as well as continuing to lead consolidation in the industry. The launcher business is directly affected by the difficult telecommunications satellites market. And we are working intensely on solving the problems with our new Ariane 5 ESCA launcher.

To confront this dire situation, our Space management is implementing a further and drastic programme to restore profitability by 2004, and our ability to restructure the business has been strengthened by the acquisition of the remaining 25% of Astrium from BAE Systems. Then again, we can look forward to some healthy growth potential driven by expected programmes like Paradigm secure communication for the UK MoD and the Galileo navigation system for Europe.

As mentioned before, with our defence products, we have the opportunity for short-term growth, and this is already being driven by programmes like the Tiger and NH90 helicopters, Eurofighter combat aircraft and missiles including Aster, Storm Shadow, Taurus and Meteor. The big challenge here is to accelerate this growth by winning a share of the US market and by forming winning partnerships with other leading players in the defence sector.

A320 family



Galileo satellite

Eurofighter in formation

Q:

Looking forward, what are the company's main strengths?

A:

Apart from successful products, it is the quality of our people. We have a wealth of talented and highly-motivated managers and qualified engineers, and we build on that wealth by promoting them to the appropriate positions. We've also made two key appointments to the Executive Committee; Ralph Crosby, an experienced US aerospace industry executive, who is tasked with developing our US activities, and the Finnish Jussi Itävuori, who heads up our Human Resources function.

Another strength is a very clear vision on ways in which we can grow. An example is our establishment of EADS International – a unit that works across divisional boundaries to support business units by efficient marketing of their products around the world. Essentially, the unit leverages our undoubted technological and production expertise through close, expert knowledge of local markets and customers. For example, in 2002, it made an important contribution to export successes in countries including Australia, Russia, Vietnam, South Africa, Norway, Greece – and a dozen others.

Yet another asset is our realistic approach to our business. We are and we will remain ambitious to achieve and maintain global leadership across a number of markets; but we recognise that the world we live in is – especially at the moment – an unpredictable one. So where there exist growth prospects, we set our managers demanding development targets. When growth is simply unavailable, we set equally demanding targets for cost savings and cash generation, that are other ways to add value. Today, the cash position and order book are firmly in line with our expectations and major efforts are on the way to reduce our costs still further, and control our cash resources.

Philippe Camus
Chief Executive Officer

Rainer Hertrich
Chief Executive Officer

Executive Committee

Philippe Camus Chief Executive Officer
He was previously Chairman of the Management Board of Aerospatiale Matra. In 1982, he joined the general management of the Lagardère Group where he was Chairman of the Finance Committee of the Matra Group until 1992, appointed Chairman and Managing Director of the Finance Committee of the Lagardère Group in 1993, and Managing Partner of Lagardère in 1998. Mr. Camus is a former student of the Ecole Normale Supérieure de Paris, an agrégé in physical sciences and actuarial science and a graduate of the Institut d'Etudes Politiques de Paris.

Rainer Hertrich Chief Executive Officer
He started his career in 1977 at Messerschmitt-Bölkow-Blohm (MBB). In 1994 he became Senior Vice President for Corporate Controlling of Deutsche Aerospace (Dasa). In 1996, he was appointed Head of Dasa's Aero Engine Business Unit and at the same time President and CEO of Dasa's Motoren- und Turbinen-Union München (MTU). In March 2000 he became President and CEO of DaimlerChrysler Aerospace. He studied Business Administration at the Technical University of Berlin and the University of Nuremberg, graduating with a Bachelor of Commerce.

Hans Peter Ring Chief Financial Officer
Holding a degree in business administration, he began his career at MBB in 1977. In 1987 he was appointed Head of Controlling of the company's Missiles and Defence Division. Subsequently he was named Head of Controlling of the Aviation and Defence Division of Dasa. From 1992 – 1995, he was CFO and Member of the Board at Dornier Luftfahrt, a Dasa subsidiary. In 1996, he was appointed Senior Vice President of Controlling of Dasa and subsequently of EADS.

Rainer Hertrich, Philippe Camus, Hans Peter Ring


Noël Forgeard, Gustav Humbert

Noël Forgeard Head of Airbus Division and President and CEO of Airbus
Mr. Forgeard joined Matra in 1987 as Senior Vice-President of the Defence and Space activities. In 1992, he was appointed Managing Director of Lagardère Group and Chief Executive Officer of Matra Hautes Technologies. He joined Airbus Industrie as Managing Director in 1998 and became the first President and Chief Executive Officer of the Airbus integrated company in 2001. He graduated from the Ecole Polytechnique and the Ecole des Mines de Paris.

Gustav Humbert Airbus Chief Operating Officer
Previously a member of the Dasa Management Board responsible for the Commercial Aircraft Division, he joined MBB in 1980, and became President and CEO of Daimler-Benz Aerospace Airbus in 1994. He holds a degree in mechanical engineering and production technology from Hanover Technical University as well as a PhD in engineering from the University of Hanover, School of Machinery.

Jean-Louis Gergorin Head of Strategic Coordination
Previously Managing Director (Strategic Coordination) of Aerospatiale Matra, he started his career with the French Government, becoming Head of Policy Planning of the French Foreign Ministry and member of the French German Committee on Security and Defence. As of 1984 he held senior strategic positions at Matra and Lagardère. He graduated from Ecole Polytechnique and Ecole Nationale d'Administration (ENA) in Paris and is an alumnus of the Stanford Executive Programme.

Jussi Itävuori Head of Human Resources
Mr. Itävuori joined EADS in September 2001. Previously, he worked for Kone Corporation since 1982 and was appointed in 1989 as head of Human Resources and member of Executive Committee of Kone Elevators. In 1995 he was appointed member of the Executive Committee and head of Human Resources of Kone Corporation. He served Finnish Air Force as a pilot and officer. He earned his Master's degree from the Vaasa School of Economics.


Jean-Louis Gergorin, Jussi Itävuori

The CEOs are supported in their operational tasks by an Executive Committee made up of the Heads of each operational Division, the Head of EADS North America and of the Heads of the four major functions of the Company. Such Executive Committee chaired by the CEOs is made up of 13 members.

Ralph D. Crosby Jr. Chairman and CEO of EADS North America
Previously, Mr. Crosby was President of the Integrated Systems Sector at Northrop Grumman Corporation, Corporate Vice President and General Manager of the company's Commercial Aircraft Division of the B-2 Division. He has a Bachelor of Science degree from US Military Academy, a master's degree both in international relations from the Graduate Institute of International Studies in Geneva and in public administration from Harvard University.

Jean-Paul Gut Head of EADS International
Prior to the formation of EADS, Mr. Gut was Executive Chairman of Aerospatiale Matra Lagardère International and Group Managing Director of Defence and Space Transport at Aerospatiale Matra. He was previously Managing Director of the Lagardère Group Board of Management, responsible for International Operations and the High Technology sector. Mr. Gut graduated from the Institut d'Etudes Politiques de Paris (IEP), with a master's degree in Economics.

Jean-Paul Gut, Ralph D. Crosby

Dietrich Russell, Francisco Fernández Sainz

Francisco Fernández Sainz Head of Military Transport Aircraft Division
Previously General Manager of Airbus España. He joined CASA in 1971 as a design engineer, occupied various positions of Product Engineering Manager (1975), Project Manager (1979), Engineering Development Director of the Technical Directorate (1982), Vice President of Engineering (1984) and Executive Vice President Programs (1997). Mr. Fernández Sainz is a graduate of Icade (Master in Business Administration) and is a senior Aeronautical Engineer.

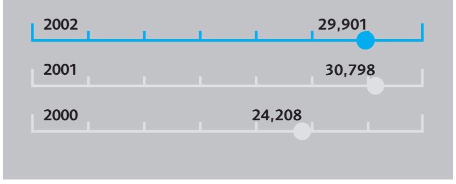
Dietrich Russell Head of Aeronautics Division
Former Chief Operating Officer of Airbus Industrie. Mr. Russell joined Dasa in 1995 where he was appointed Member of the Board responsible for the Aeronautics division. Mr. Russell graduated from the Departments of Economics and Metallurgical Engineering and holds a Doctorate in Engineering from the Technical University RWTH of Aachen. He worked 24 years for Mannesmann before joining Dasa.

François Auque Head of Space Division
He was appointed Chief Financial Officer of Aerospatiale in 1991 and Group Managing Director for Satellites at Aerospatiale Matra and a member of the Aerospatiale Matra Management Board in 1999. Mr. Auque joined Aerospatiale in 1991 as Chief Financial Officer. Graduated from Ecole des Hautes Etudes Commerciales (HEC), from Ecole Nationale d'Administration (ENA), and from Institut d'Etudes Politiques de Paris (IEP).

Thomas Enders Head of Defence and Civil Systems Division
He joined MBB/Dasa in 1991, after various posts in international research institutes, the German Parliament and the Planning Staff of the German Minister of Defence. After several years in the company's marketing sector, he became Corporate Secretary of Dasa in 1995. From 1996–2000 he was in charge of Corporate Strategy and Technology. Mr. Enders holds degrees from the University of Bonn and UCLA, California.

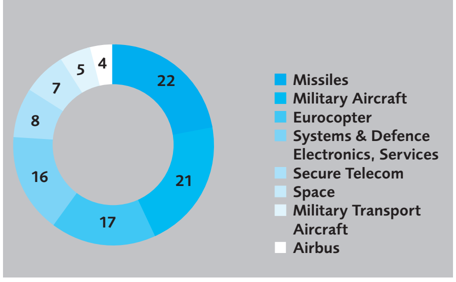
Thomas Enders, François Auque

Key measures in 2002



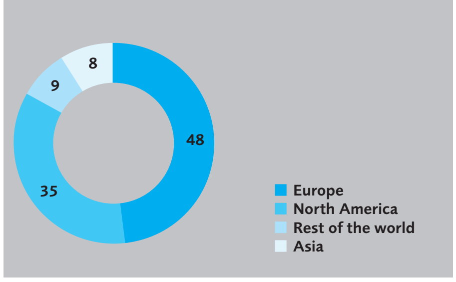
Revenues (€m)

EADS achieved its revenues target for 2002 thanks to successful management of challenging market conditions. The revenues of €29.9 billion (– 3% from 2001) reflect, as anticipated, lower Airbus deliveries and the exchange rate effect of a weaker US Dollar. At a constant Dollar/Euro exchange rate, revenues would have remained close to the 2001 level.



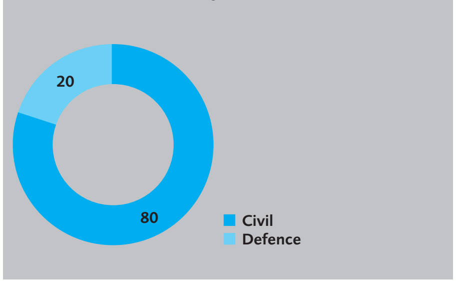
Revenues in defence activities (%)

EADS realised in 2002 about €6 billion revenues in defence businesses, including military transport aircraft, combat aircraft, military helicopters, missiles, defence electronics, secured communication and military space.



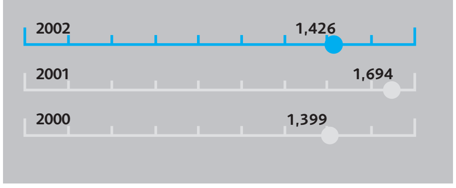
Revenue breakdown by geography (%)

Thanks to pragmatic access built on cooperation agreements, acquisitions of companies leaders on their markets – such as Cogent, the UK secure communication leader, or Patria, the Finland aerospace leader for example – EADS has well-balanced revenues. Moreover, competitiveness of products underlines global reach with over half outside Europe.



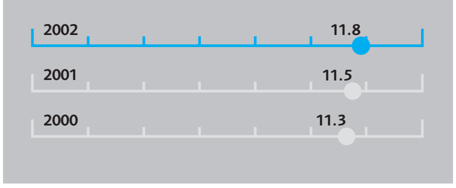
Revenue breakdown by markets (%)

EADS realises today 20% of revenues in defence, representing €6 billion and ranking EADS No 2 in Europe. EADS' strategy is to increase defence revenues to about 30% in the long-term. A more balanced portfolio will allow to smooth the effects of civil cycles.



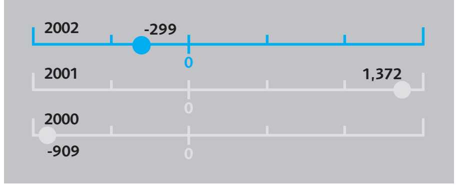
EBIT * (€m)

EADS achieved its 2002 target with an EBIT (Earnings before interest and taxes, pre-goodwill amortisation and exceptionals) of €1,426 million (2001: €1,694 million), reflecting higher R&D expense, namely for the Airbus A380 programme. The main contributions came from Airbus and the Aeronautics Division. The Defence and Civil Systems Division achieved its turnaround and exceeded its break-even target. The Space Division recorded a substantial loss, as previously announced due to risk and depreciation provisions. The Military Transport Aircraft Division was impacted by an already reported one time charge, following Fairchild Dornier's insolvency.



EBIT * margin pre-R&D (%)

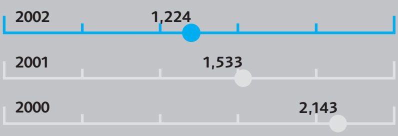
Before Research and Development (R&D) cost, EADS slightly improved its EBIT* margin, proving the success of cost savings actions.



Net income (€m)

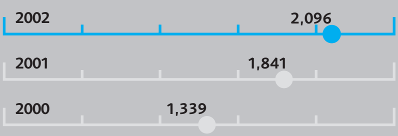
Net income after goodwill and exceptionals was a loss amounting to €–299 million. It was negatively affected by goodwill amortisation of €936 million, including a €350 million impairment charge, reflecting the further deterioration in the space markets. 2001 had been impacted by positive exceptionals of about €0.6 billion, mostly related to Airbus SAS creation.

All 2000 figures: Airbus 80% consolidation. All 2001 and 2002 figures: Airbus 100% consolidation.
*Pre-goodwill amortisation and exceptionals



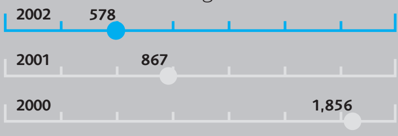
Net cash position (€m)

With €1.2 billion, Net cash at the end of 2002 is better than originally anticipated, thanks to the disciplined containment of customer financing exposure and to active cash management, as well as to positive foreign exchange rate effects.



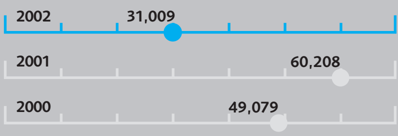
Internally financed R&D (€m)

R&D cost increased, as anticipated, to €2.1 billion (2001: €1.8 billion), particularly due to the A380 programme.



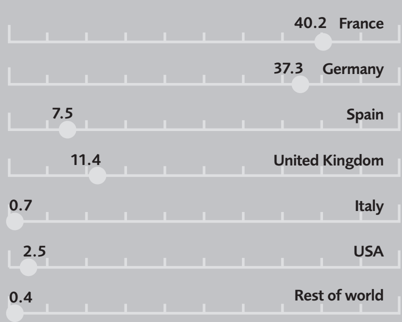
Free cash flow (€m)
Before customer financing

Free Cash Flow pre-customer financing remained positive, after high capital expenditure particularly for the A380 programme, which demonstrates the company's ability to self-finance this programme.



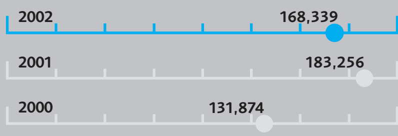
Order intake (€m)

At €31 billion, order intake remained above revenues, despite a soft market for commercial aircraft and the delay in the final order for the A400M military transport aircraft, now expected in 2003. Airbus recorded net orders for 233 aircraft, compared to 274 net orders in 2001. The 2002 figure reflects order cancellations and includes the win of the easyJet deal for 120 firm aircraft orders. The Airbus order intake amounted to €19.7 billion, compared to €50.3 billion in 2001, when contracts over 85 'high-value' A380 aircraft were signed. The Space Division strongly increased its order intake through the military launcher business and the Amazonas telecom satellite contract with Spain. Orders at the Defence and Civil Systems Division grew strongly thanks to the orders in missiles (Meteor and Taurus programmes) and defence electronics.



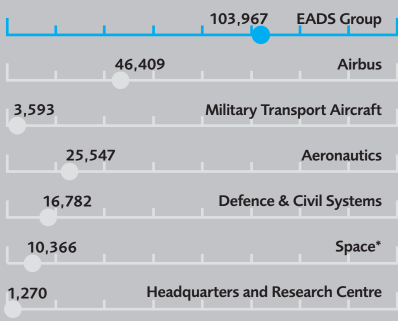
Employees by country (%)

EADS provides work for local employees all over the world. With 11% of the total workforce employed at British sites, the UK is of growing importance for the Group. Airbus and Space each employ 17% of their workforces at UK sites, DCS 12%. With 1,525 (6%) of Aeronautics' workforce located on the American continent, this Division is EADS' largest employer in that region.



Order book (€m)

The EADS order book remained strong at nearly €170 billion. Its decrease, from 2001, is mainly attributable to the revaluation of the order book based on a weaker US-Dollar/Euro exchange rate of 1.05 at year-end, amounting to an adjustment of about €14 billion. It includes over 1,500 Airbus aircraft, 723 helicopters and represents more than five years' of revenues at the current level; it remains unparalleled in the global aerospace and defence industry.



Employees by business sector

* Astrium 75% consolidation

Headcount, at year-end, was at 103,967 (2001: 102,967). The increase in 2002 is due to ramp-ups in new programmes, with about 3,000 new jobs for the A380 as well as headcount growth for the NH90, Tiger and Eurofighter ramp-ups. These effects were partly compensated by adjustments to lower production rates at Airbus and reductions at other EADS Divisions and at Headquarters.

EADS sells its products and services in an unusually wide range of markets. Our customers range from governments and public services such as police forces to airlines and other commercial clients. Responding effectively to change in demand and market conditions is essential; as is investing in those areas offering the highest potential. The following is a brief overview of conditions in four key markets at the beginning of 2003.

No 1 global order book
No 1 helicopters
No 1 commercial launcher
No 1 light/medium military transport aircraft
No 2 commercial aircraft
No 2 missiles systems
No 3 satellites
No 4 combat aircraft

Except order book, all rankings in revenues

Top: Low-cost carriers emerging as a significant segment within the total market
Bottom: Border control initiatives by the US Coastguard

Commercial aviation

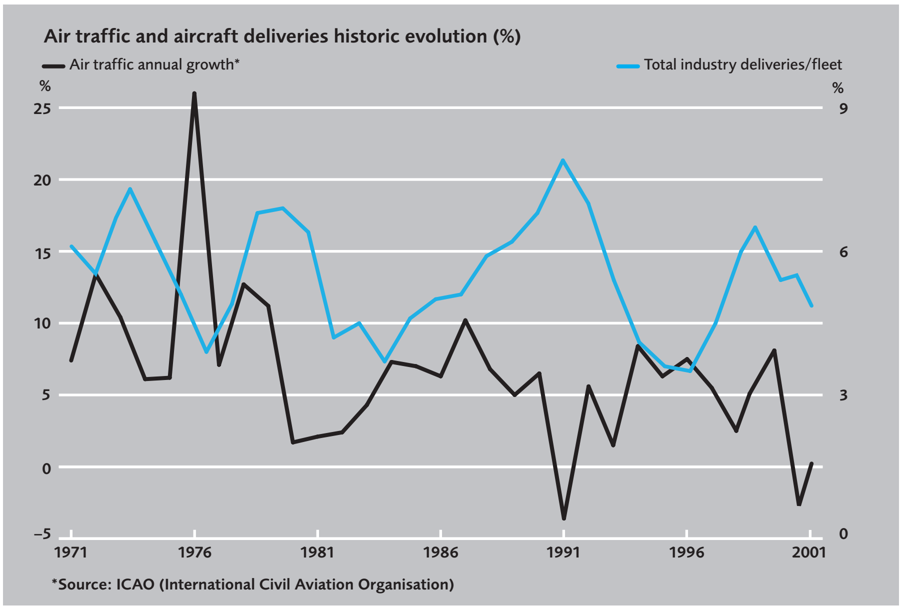
The market downturn, which started in 2001, driven by weakening world economies and exacerbated by the terrorist attacks on 11th September 2001, continues to be the focus of the industry. Passenger demand in 2002 remained slack as compared to pre-downturn traffic, with US domestic, trans-Atlantic and trans-Pacific traffic flows particularly negatively affected. As well as overall demand decreasing as a result of the factors mentioned above, the volume of higher yield business passengers decreased just as such passengers became more price sensitive.

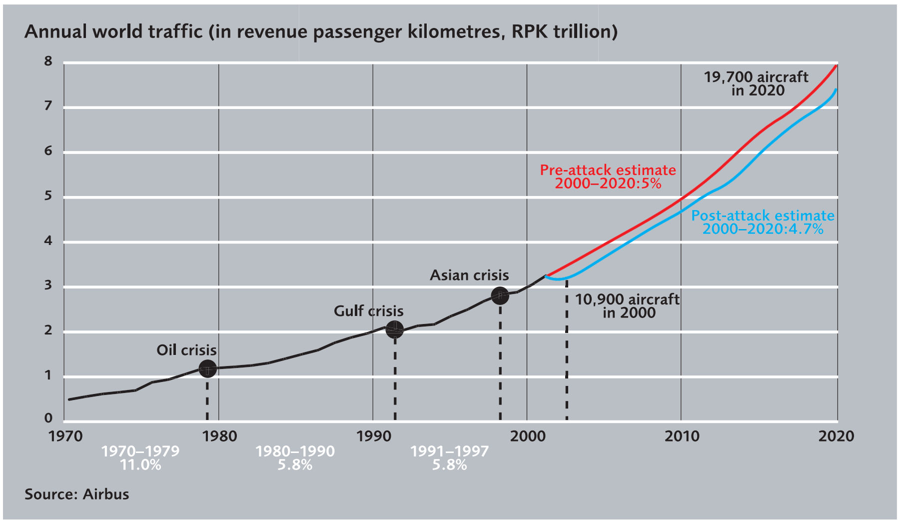
By contrast, no-frills/low-cost carriers have emerged as a significant segment within the total market. They have developed in the US and Europe by following a business model that leverages the benefits of minimising costs while stimulating demand by offering low fares to and from short- and medium-range, often under-served, destinations.

The market for passenger jetliners depends primarily on the demand for air travel, which is itself mainly driven by economic or GDP growth, fare levels and demographic growth. Measured in revenue passenger kilometres, air travel increased every year from 1967 to 2000, except for 1991 due to the Gulf War, resulting in an average annual growth rate of 7.9% for the period. In 2002, Airbus projected that air travel would grow on average at 4.7% per annum during the period 2000 – 2020. However, although those in the industry feel that long-term growth in air travel is secure, the market for aircraft has proven to be cyclical, due to the volatility of airline profitability and cycles in the world economy.

As a consequence of deregulation policies, major airlines are constantly adapting their fleet, network and commercial strategies. This adaptation is possible because of the availability of new aircraft capable of meeting customer requirements in terms of cost and performance. In response to the price demands of passengers and competition of new low cost carriers, major airlines have organised their operations around strategically located "hub" airports enabling them to link more cities at lower fares. This affects demand as hubs permit fleet standardisation around both smaller aircraft types, such as the A320, for the short, thin and high frequency routes feeding the hubs and larger aircraft, such as the A380, for longer and higher density routes between hubs.

The trend towards fragmentation on long and very long haul routes, driven by the development of new routes between secondary cities, will be facilitated by the availability of more modern, efficient aircraft. As an example, in the Atlantic market, the development of new non-stop services between secondary cities is expected to drive demand for intermediate wide body aircraft such as the A330.





Helicopters

On present estimates, the global market – civil and military combined – will more than double in the next ten years to more than €10 billion.

The military helicopter market in Europe is growing at an average 10% per annum, thanks to significant new programmes like the NH90 and Tiger, which also have high export potential. Additional growth is coming from new areas including Search and Rescue and the Rapid Reaction Force. The US is the largest military helicopter market, but is hardly accessible to any European manufacturer.

In the civil and parapublic markets total sales by all manufacturers have declined by 20% over the past two years and global orders now lie somewhere in the range of 400 to 450 aircraft per year. A return to growth after the events of 11th September 2001 has been delayed, but is expected to become gradually visible through 2003. Estimates are for average growth of 4% per annum in the period up to 2012, with new opportunities being created by homeland security and border control initiatives by the US in the Gulf of Mexico and by Europe in the North Sea.

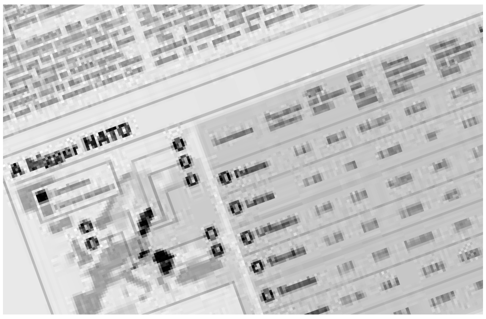
Defence

The global security environment is nowadays mainly characterised by global "asymmetrical threats" from terrorism and the proliferation of mass destruction weapons causing an increasing need for out-of-area law enforcement and military operations not only for "fight-and-win" but also for deterrence, conflict prevention and peacetime engagement. This will require joint mission capabilities, multi-national collaborations, interagency cooperation and especially shortened, reaction times. Time, speed and precision have become decisive. This will impact the definition of future military system capabilities as well as the modernisation of existing legacy systems, in order to provide appropriate and interoperable battle management, command, control and communication structures all focused on information superiority as the most important prerequisite to success.

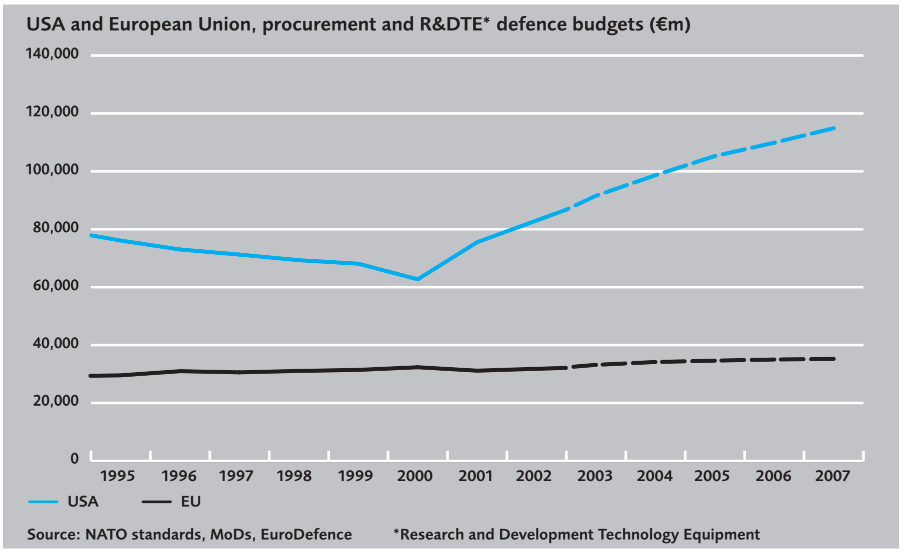
At the moment, an important share of both US and European defence budgets is allocated to air combat and missile systems as well as to air mobility systems. In consequence of the changing threat environment, however, growing resources will be devoted to air and missile defence, intelligence and surveillance systems and support services including communications, refuelling and transportation. Higher efficiency will be achieved by an increasing degree of networked resources, which in addition will lead to new and more effective network-enabled capabilities.

President Bush's proposed defence budget for 2004 is US$379.9 billion – a rise of 4.2% over that for 2003 – and this figure is expected to rise by 4.9% per annum compound to a peak of US$483.6 billion in 2009. Research and Development expenditures will peak in 2005, with procurement growing strongly in 2006 and beyond. The separate US Homeland Security budget is US$38 billion.

In Europe, the total defence budget is estimated at €150 billion, growing at 1–2% per annum. The UK remains the motor for growth, but France has launched a multi-year defence programme with some increase in funding. The German defence budget is under strain; nevertheless, programmes like Eurofighter, Tiger and NH90 have been confirmed, the Meteor programme started in December and the launch of the A400M is imminent. European Union enlargement might leave smaller resources for defence spending, and the Maastricht criteria on public spending – capping public sector deficits at 3% of GDP – might also prove limiting. On the other hand, there is increased awareness that Continental Europe should match or at least reduce the gap between



Top: NATO expansion in 2002
Middle: World stock market
Bottom: Afghanistan was a focal point of politics in 2002



the US and UK equipment per soldier ratio (i.e., fewer men, better equipped). There is also a trend to outsourcing non-front line services, which should free up resources for systems and equipment. The first steps are being taken towards a unified European approach on defence, and joint maintenance and procurement arrangements are becoming more common.

Space

Commercial telecommunications satellite markets remain challenging as the industry is consolidating, in the phase of overcapacity and more intense competition between satellite suppliers. In 2002, many suppliers suffered order cancellations, and the launcher business suffered accordingly.

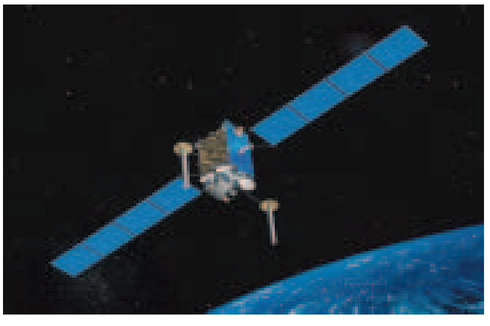
Over the next five years, however, the existing fleet of ageing satellites will need to be replaced, and this alone should account for over €8 billion of orders, with corresponding benefits to launch activities. In the medium to long term, we expect the re-emergence of the information technology market to increase demand for satellite bandwidth. Drivers for this demand will include broadband internet access, direct-to-home television and video-on-demand.

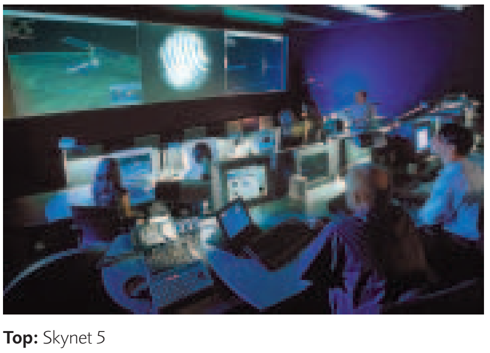
In the institutional sector, budgets from the European Space Agency and national agencies are fairly stable, declining slightly after adjustment for inflation. This situation is likely to persist.

The military space sector, on the other hand, is a growing market in global terms. The US is leading the way towards network-enabled capabilities providing for the instantaneous collection and dissemination of high volumes of information on a global basis. This requires large bandwidths that can be deployed rapidly, flexibly and securely, together with reconnaissance and telecommunications satellites. The Ballistic Missile Defence programme is another major growth area, accessible to suppliers via cooperation agreements.

The European military space market remains small compared with the US, but is also growing. The expected harmonisation of EU defence R&D and procurement should pave the way towards more Ballistic Missile Defence demonstrator programmes and, eventually, to operational assets in the form of satellites and launch vehicles. A number of governments have confirmed the need for an independent European access to space and this should eventually favour European manufacturers of launcher systems and telecommunications and observation satellites.

There is also increased demand for Public Private Partnerships and Private Finance Initiatives telecommunications solutions in both institutional and military sectors. Forthcoming examples in the military domain include Skynet 5 for the UK MoD and the expected DmilSatcom and NATO 2000 programmes. In the civil domain, the EU, together with ESA, after having secured funds for its development, is now preparing the deployment phase of the €3 billion Galileo navigation satellite venture.





Top: Skynet 5
Bottom: Satellite control centre

Our business

EADS is organised in five major Divisions. Each is closely aligned to the specific needs of customers in its sector; at the same time, the integration of the Group allows for the maximum exchange of information, technologies and working practices to enhance the value of each Division's product and service offering.

Airbus	Military Transport Aircraft	Aeronautics	Defence & Civil Systems	Space
Noël Forgeard	Francisco Fernández Sainz	Dietrich Russell	Thomas Enders	François Auque
		EADS Military Aircraft Aloysius Rauen	**Systems and Defence Electronics** Stefan Zoller	**Astrium** Antoine Bouvier
		Eurocopter Fabrice Brégier ***	**EADS Services** Jacques Vannier	**EADS Launch Vehicles** Hervé Guillou **
		EADS ATR Jean-Michel Léonard	**MBDA** Marwan Lahoud *	**EADS CASA Espacio** Pedro Mendez
		EADS EFW Horst Emker ***	**EADS LFK** Werner Kaltenegger	**EADS Space Services** Ulrich Aderhold
		EADS Sogerma Services Yves Richard	**EADS Telecom** Patrick Jourdan	
		EADS Socata Philippe Debrun		

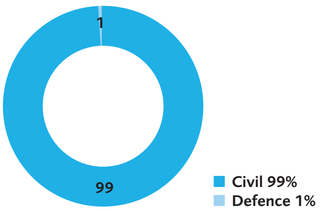
* as of 1st January 2003
** as of 15th March 2003
*** as of 1st April 2003

In the face of a difficult year for its customers, Airbus maintained healthy financial results, delivered 303 aircraft – marginally ahead of forecast – and won 300 new orders from 29 customers, equivalent to 54% of all orders for commercial aircraft during 2002.

millions of euros	2002	2001	variation
Revenues	**19,512**	20,549	**–5%**
EBIT	**1,361**	1,655	**–18%**
Order intake	**19,712**	50,279	**–61%**
Order book	**140,996**	156,075	**–10%**

in number of aircraft	2002	2001	variation
Deliveries	**303**	325	**–7%**
Order book	**1,505**	1,575	**–4%**

Revenue breakdown by market in 2002



2002 results

In an encouragingly robust performance for 2002, Airbus recorded revenues of €19.5 billion. Indeed revenues decreased only slightly, by 5% from 2001, despite a 7% decrease in deliveries and a weaker dollar. EBIT of €1,361 million was achieved after self-financed R&D expenses of €1.7 billion. EBIT margin pre-R&D was thus maintained above 15% and even improved from 2001, despite the market downturn, demonstrating the success of its cost saving plans.

2002 deliveries

In January 2002, Airbus estimated that it would be delivering about 300 aircraft during the course of the year. This was backed by its order-book audit and reflected the most recent customer feedback. It was however seen by many as an optimistic forecast. In fact, the Company delivered 303 aircraft during the year, representing 44% of all large commercial airliners in the year. These 2002 deliveries to more than 60 operators, comprised 236 single-aisles, nine A300-600s and 58 A330/A340 family airliners. This brings to 3,127 the total number of Airbus aircraft delivered to customers around the world.

New orders

The Company signed contracts for 300 new aircraft with a total value of some €26 billion (based on list prices), representing 54% of the market in terms of value. After cancellations, which were fewer than in 2001, net order intake amounted to 233. At the end of 2002, the order book showed a healthy backlog of more than 1,500 aircraft, representing five years' of production at current rates and exceeding the competition by over 300 aircraft.

Airbus won its largest single contract of 2002 from low-cost carrier easyJet for 120 A319s. The Company's product offering, with its emphasis on cost-efficiency, has a particular appeal to low-cost carriers. Airbus also continued to gain new customers including some of the major flag carriers such as KLM for six A330s with options for a further 18 aircraft and Swiss International for 13 A340s. Air New Zealand also joined the "Airbus club" and, in the largest airliner deal in the history of the Southern Hemisphere, South African Airways formalised its decision to re-equip its entire fleet with 41 new Airbus aircraft over the next ten years.

Important repeat business from existing customers included China Eastern which purchased 20 more A320s. ILFC – Airbus' largest customer worldwide – purchased 13 more aircraft, and Lufthansa ordered its first ten A330s and is now set to operate every available Airbus type.

Finally, Airbus met its goal of signing an incremental A380 order in each of the years following launch, with Federal Express placing firm orders for ten A380-400F freighters. By year end, firm orders for the A380 stood at 95.

This sales record is testimony to the widely appreciated advantages offered by Airbus products: passenger comfort, reliability, environmental friendliness and low operating cost. In addition, an Airbus fleet presents the unique advantage of true operational commonality, leading to considerable savings for operators in terms of crew training as well as improved efficiency and flexibility.

Finance

In spite of a difficult environment, Airbus managed to limit the growth of its customer financing exposure. The net increase of customer finance exposure is below 3% of annual revenues, that is, below $600 million. This was achieved by the control of net additions and the active sell-down of exposure so that, while 90 aircraft were delivered to North American carriers in 2002, only five of them were still being financed by Airbus at the end of the year.

The Company also made considerable progress with its drive to achieve annual productivity gains of 5% before inflation, with 1.5% coming from special value creation projects following Airbus integration. A 2002 cost savings target of €130 million was overachieved.

This tight financial management made it possible – despite market uncertainties and the A380 capital expenditure and R&D ramp up – to generate a positive free cash flow before customer financing and shareholder dividends.

"Prudence and reactivity will continue to be key in 2003. On the one hand, Airbus will no doubt face many challenges, but on the other hand, we look to the future with confidence gained from the proven value of our products, the winning spirit of our people and our ability to overcome hurdles."

N Forgeard

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

Maintenance personnel in front of A340-600

Operations and staffing

These rapid and substantial cost savings were achieved thanks to the ability of the Airbus community to cope with a number of major challenges – business problems and organisational changes – with determination and professionalism.

Overall, the Company's headcount has remained stable, slightly below 46,000 in full-time equivalents. Some measures of flexibility have been used to reduce social costs without lay-offs, despite the production rate decrease from 325 deliveries in 2001 to 303 deliveries in 2002. At the same time, close to 1,000 engineers have been hired for the A380 and A400M programmes.

Airbus has developed its capacity abroad, opening a design centre in Wichita, Kansas and signing an agreement with the Kaskol Group to open a joint engineering centre in Moscow, Russia. The office of Airbus North America Engineering, Inc., in Wichita, currently hosts some 100 engineers working on wing design for the A380, and is linked in real time to the main A380 wing design office in the UK. The Kaskol venture will coordinate and enlarge the activities that will be developed with Russian aerospace companies – including the sourcing and production of components.

A380

The future A380 "very large aircraft" represents a number of major advances in aircraft technology. An estimated 40% of the aircraft's structure and components will be manufactured from the latest generation of composites and advanced metallic materials, which, besides being lighter than traditional materials, offer significant advantages in terms of operational reliability, maintainability and ease of repair. Several innovative manufacturing techniques have been developed for the programme and the aircraft will set new standards of environmental friendliness – for example, by using around 13% less fuel and making less noise than its nearest competitor, while carrying 30–50% more passengers.

The development of the A380 continues on schedule and manufacturing has begun at all European Airbus sites. Some 6,500 staff are working on the programme and by the end of the year, over 95% of suppliers had been selected, including significant ones from Japan – for example, Mitsubishi Heavy Industries, Fuji Heavy Industries, Shinmaya Industries and Yokohama Rubber. Development costs have remained on budget and financing from risk-sharing partners, refundable government loans and Airbus internal cash were in place by the end of the year. Plants are under construction in Toulouse and Hamburg. At the end of March 2003, Airbus had received 103 firm orders and commitments for the A380.

A340-500/-600

After completing its test programme successfully, the four-engine A340-600 entered service with Virgin Atlantic in August. By the end of 2002, the airline had taken delivery of four aircraft while Cathay Pacific and South African Airways had received two aircraft each.

Following its maiden flight in February, the ultra long-range A340-500 completed its flight test campaign and obtained certification in December. The first aircraft is scheduled for delivery to Air Canada in the second quarter of 2003.

In the first certification process conducted jointly by the US, Canadian and European Authorities, both the -600 and -500 types were granted the same pilot type rating as the A340-300, adding greatly to customers' ability to operate fleets flexibly and cost-effectively.

A340s on the production line at Toulouse. These four-engined aircraft are the largest of the Airbus family.

The production facility in Hamburg. Airbus has shown that genuinely international ventures can succeed in world markets.

The new long-range A340-600 takes off from La Paz in the course of its final certification programme, which was successfully completed in 2002.

A318
The A318, the smallest member of the A320 Family, flew for the first time in January 2002. By August, it had passed the half-way point in its certification campaign, accumulating over 500 flight hours by the end of the year. Certification is expected in the first half of 2003, and the A318 will enter service with Frontier Airlines soon afterwards.

Outlook
Current political and economic uncertainties are bearing particularly heavily on the civil aviation industry and there is no doubt that 2003 will be another difficult year, with many airlines facing low or negative air traffic growth, expensive oil and financial difficulties. Airbus' target for 2003 is to deliver 300 aircraft if the global situation remains stable. These planned deliveries are fully backed by higher firm orders and significant customer advance payments. The Company's lean cost structure, combined with the value of its products, allows Airbus to generate significantly better industrial margins than its major competitor and the flexibility of its industrial tool remains a key asset in adapting production capacity to market demand.

Airbus profitability will continue to be impacted by the R&D increase for the Airbus A380 programme.

The new production facility for the A380 takes shape at Toulouse. Components, systems and subsystems will be produced at more than 20 sites around the world by a total of more than 70 suppliers as far apart as the US and Japan.

Part of the interior design for the A380, which will bring new standards of comfort and space to long-range air travel from 2006 onwards. 95 firm orders have been placed by leading airlines, as of the end of 2002.

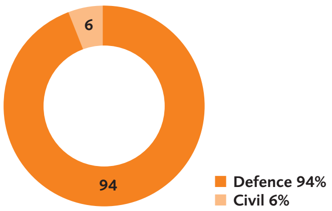
easyJet is one of the world's fastest-growing players in the low-cost sector – itself taking an increasing share of the world market. The airline's order for 120 A319s emphasises the competitiveness and operational flexibility of the Airbus family.

Military Transport Aircraft

In difficult conditions, revenues were maintained at nearly the same level as 2001s. We once again confirmed our leadership in the field of medium military transport aircraft, while military derivatives and mission aircraft continued to grow and our aerostructures business won a number of substantial orders from important manufacturers.

millions of euros	2002	2001	variation
Revenues	**524**	547	**–4%**
EBIT	**–80**	1	**–**
Order intake	**403**	993	**–59%**
Order book	**633**	1,320	**–52%**

Revenue breakdown by market in 2002



The Division recorded revenues of €524 million, fractionally lower than in 2001. The shortfall of deliveries to the insolvent Fairchild Dornier and to Airbus were offset by an increase in deliveries of CN-235 aircraft and the C-295 contract with Poland. EBIT was impacted by a €54 million charge to depreciate our assets relating to the 728 programme of the insolvent Fairchild Dornier and by the delay in the A400M signature.

Order intake decreased from €993 million to €403 million and the total order book fell from €1,320 million to €633 million – including an adjustment of €479 million relating to Fairchild Dornier. The current order book represents about one year's production, but is expected to grow substantially in 2003 as the €18 billion A400M programme should gather pace.

A400M

On this important programme, responsibility for Development Management was assigned to Airbus; worksharing arrangements were agreed; and engine supply tendering has been reopened. Agreements were signed between EADS-CASA and the other EADS units participating in the programme as associates. The German Government has now confirmed its intention to order 60 aircraft. EADS management is confident of receiving the official order for this programme in 2003.

Light and Medium Military Transport Aircraft

The CN-235 was chosen as the fixed wing platform for the US Coast Guard's Deepwater programme – with FITS (the EADS-CASA Fully Integrated Tactical Mission System). The French Air Force exercised its option for three additional CN-235 and the Colombian Navy ordered two Maritime Patrol versions.

Brazil selected the C-295 for its CL-X medium transport aircraft equipment programme. We won a contract for two C-295 for Jordan, and delivered four to the Spanish Air Force. We also signed a contract with the Mexican Navy for the modernisation of eight C-212 with the installation of the FITS mission system.

Derivatives

Brazil selected EADS-CASA to modernise nine P3 Orion aircraft, and Canada signed a contract with BWB (the German procurement agency) for two A310 tanker conversions.

NATO is in the process of commissioning an Air-to-Air refuelling panel, and in September 2002, the Air Refuelling Boom System Development Programme was launched.

The FSTA (Future Strategic Tanker Aircraft) programme for the UK, is due to enter into service in January 2008. To address this major project, the Airtanker organisation and shareholding structure has been improved for a better allocation of responsibility, and EADS has taken a leading role within the consortium.

December saw the first flight test of the prototype A310 VIP A310 for Spanish Air Force.

Aerostructures

Fairchild Dornier's insolvency inevitably affected this unit, since we were subcontractors for the Dornier 728. In 2002, we have fully written down all our assets to Fairchild Dornier for a total charge of €54 million. The first A340-600 (for which we produce fan cowls) was delivered, and we won several important contracts with Airbus, as well as the order for the A380 belly fairing metallic structure. These, with existing contracts, provide a sound basis for the future.

Outlook

2003 is expected to see the coming into force of the A400M contract, the start of the US Coast Guards Deepwater programme, and – we anticipate – the launch of the Abu Dhabi Shaheen Programme for C-295 platforms with the MTAD Mission System. We continue to evaluate the best approach to participating in the US Multi Mission Aircraft programme. Overall, we expect a substantial upturn in the coming year, with EBIT becoming positive, and, with the A400M contract, multiplying the order book.

“It was a challenging year for some of our major customers. However, the continued success of our CN-235 and C-295 transports and the key forthcoming A400M programme should lead to substantial improvements in performance over the next few years.”

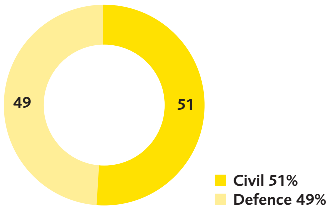
Francisco Fernández Sainz
EADS CASA Chief Executive Officer
Head of Military Transport Aircraft Division
EADS Executive Committee Member

Test pilots in front of C-295

The Division continued its path of profitable growth. A number of major programmes including Tiger and the NH90 are entering series production and Eurofighter starts delivery. In addition, all our maintenance and services businesses are playing increasingly important roles.

millions of euros	2002	2001	variation
Revenues	**5,304**	5,065	**5%**
EBIT	**261**	308	**–15%**
Order intake	**5,099**	5,315	**–4%**
Order book	**13,458**	13,722	**–2%**

Revenue breakdown by market in 2002



Revenues rose from €5.1 billion in 2001 to €5.3 billion, thanks largely to the ramp up of Eurofighter combat aircraft production together with strong growth by Eurocopter.

2002 EBIT was €261 million, compared to €308 million in 2001, including the negative impact of the civil aviation downturn on the maintenance and aerostructure businesses of the Division and the increase in its R&D expense.

Order intake was €5.1 billion and the order book stands at €13.5 billion at year-end 2002, equivalent to over two years' production.

Eurocopter

The civilian and parapublic helicopter markets remained flat, but Eurocopter's delivery share in this market increased from 45% in 1999 to 60% in 2002. We continued to enhance our comprehensive range of products and delivered the first EC145 to France's Sécurité Civile and Gendarmerie.

In the military sector, we achieved major export successes with contracts for the NH90 military transport helicopter with Norway – as well as winning an order for 10 EC725 from France. We are now entering the strong ramp up in production preceding the delivery of the French, German and export Tigers and of the NH90s for France, Germany, Italy, the Netherlands and the Nordic countries.

The Helisim helicopter training simulator centre was opened, and won its first large training contract with the Royal Netherlands Air Force.

We also reinforced our international network, with subsidiaries in Romania and Malaysia, with a joint venture in China, and we decided to open a new facility in Mississippi to improve our access to the US parapublic market.

EADS Military Aircraft

For Eurofighter, the year saw the maiden flight of the first Instrumented Production Aircraft (IPA), taxi trials of the first series production aircraft and the rollout of the first series production twin-seat GT001. By the end of the year, prototypes and instrumented production aircraft had completed nearly 2,500 flights, in preparation for deliveries to begin in 2003. We opened the Manching System Support Centre in Germany and delivered the first Interim Training Device (ITD) to the German Air Force. On the export side, exclusive negotiations are ongoing with the Austrian Government. Sales campaigns continue in Greece, Singapore, Norway and elsewhere.

Germany, the UK and Italy all approved new development and retrofit programmes for their Tornados, and the first Italian upgrade/retrofit contract was signed during the year. Clearance was obtained for Greece's F4-F Phantom Avionic Upgrade Programme, and we delivered the first two prototypes of the F-5 avionic upgrade to the Spanish Air Force.

The advanced definition phase of the Mako – the high-performance light combat and training aircraft – began. We won a contract to perform a feasibility study on advanced pilot training for the 12 European nations, in which the Mako is a candidate.

In the mission and transport aircraft sector, we negotiated a contract for the installation of an extended electronic warfare system in the C-160 Transall, and submitted proposals for replacement of Maritime Patrol Aircraft (based on the Airbus A320 platform) for Germany and Italy.

Future projects and technology activities include our participation in the European Technology Acquisition Programme (ETAP) to develop a European 5th generation combat air system and in the US Vector/X-31 Research Aircraft. The Military Aircraft plant at Augsburg also won subcontracts for work on the A380.

"These are exciting times for the Aeronautics Division, with a number of major programmes gathering pace. Our job is to ensure they add further value for the consistent performance of our highly diverse business."

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

Test pilots in front of Tiger

ATR: Regional Aircraft

All 19 new ATR aircraft delivered in 2002 were to existing users, underlining our strong customer relationships. One of our important contributions is the re-marketing of used aircraft, to protect the value of the customer's fleet. In 2002, we achieved 35 re-deliveries.

Two highly significant steps were achieved in the cargo conversion programme: we handed over the first fully-converted ATR 72-200 to the Swiss operator Farnair, and FedEx selected ATR aircraft as their standard platform for four to nine tons of payload. Eventual orders could amount to 200 aircraft.

EADS Sogerma Services: Maintenance

Sogerma's business achieved stable revenue, despite the continued effects of 2001s economic downturn and increased competition. Globally, 2002 has seen the confirmation of Sogerma as a Total Care provider with a "totally supported" fleet enlarged to more than 100 aircraft. Our European maintenance, repair and overhaul business achieved its targets notwithstanding lower demand from customers; in the US, the Lake Charles facility made its forecast breakthrough, winning contracts worth $120 million from major players such as FedEx, DHL and Jet Blue.

In component support, Sogerma was selected to support the Taca Airline A320 fleet in South America. The unit also doubled its market share for cabin interiors and outfitting – mainly for the corporate jet A319-CJ, of which two were delivered. An A330 VIP project was started, as well as work on first class cabins for China Eastern Airlines (CEA) and Air India.

In Aerostructures, it was a year of rationalisation, as we established specialised centres for Composite and Metallic fabrications.

In Military Fleet Support, the new sourcing policy of the French procurement agency DGA (Délégation Générale pour l'Armement) favours active competition and has on the one hand led to the loss of the French Air Force C-130 support contract, but is also opening up new opportunities, as does a more dynamic export market for heavy maintenance and modernisation on the C-130, leveraging on Sogerma's expertise.

EADS Socata: Light Aircraft and Aerostructure

The business met its forecasts, despite a 16% downturn in the light aviation market since 11th September 2001. The new TBM 700 C2 has been well received. The development and production of aerostructures for the A380 and the Falcon 7X has begun and will provide a robust base for future years.

EADS EFW: Aircraft Conversion

Five A300-600 and one A310 passenger-to-freight conversions were delivered by our German subsidiary EFW, including the 50th conversion for FedEx. EFW's technical leadership was confirmed with the award of Design Organisation Approval by the German federal office of civil aeronautics (Luftfahrt-Bundesamt).

More than 300 shipsets were delivered to Airbus, and we won the contract for shot-resistant Airbus cockpit safety doors. By the year end, more than 1,500 door retrofits had been delivered.

Outlook

Overall, the Division is confident of meeting its challenging targets for 2003, supported by contributions to the A380 and A400M programmes. Commercial activities should remain stable, and military activities will ramp up further. EBIT is expected to grow substantially over the coming years, backed by growing future deliveries to major programmes such as the Eurofighter combat aircraft and the Tiger and NH90 helicopters.

TBM 700s on the Socata production line at Tarbes, near Toulouse. Socata is winning an increasing share of the private civil aviation market, and some 5,800 of the company's aircraft are in service around the world.

The Eurofighter will play an essential front-line role in Europe's defence over the next decades. Deliveries to the four partner nations Germany, Italy, Spain and UK begin in 2003, and a number of other countries have expressed interest, giving this highly advanced combat aircraft promising export potential.

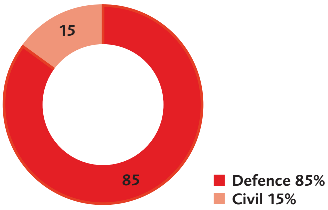
An EC135 involved in Mountain Rescue missions – just one of the vital tasks performed by Eurocopter all over the world. Eurocopter currently holds some 60% of the civil and parapublic helicopter market – and the Tiger and NH90 are giving the company a growing defence role as well.

Defence and Civil Systems

The restructuring efforts of the past two years are paying off. The Division recorded a positive, better-than-planned EBIT, and increased orders to the equivalent of more than three years' revenues. Profitability is expected to grow strongly over the coming years.

millions of euros	2002	2001	variation
Revenues	**3,306**	3,345	**– 1%**
EBIT	**40**	–79	**–**
Order intake	**4,410**	3,081	**43%**
Order book	**10,110**	9,094	**11%**

Revenue breakdown by market in 2002



The year saw mixed signals from major European customers. While the British defence market is still the primary growth engine in Europe and while the French Government launched a new multi-year defence funding plan which will provide opportunities for new and upgraded missile systems as well as for unmanned aerial vehicles (UAVs), the German defence budget is under considerable strain. Nevertheless, Germany approved two major missile contracts in 2002, enabling EADS to secure orders for Taurus (€0.5 billion) and Meteor (EADS stake 50% = €0.9 billion).

Due primarily to revenue losses in the secured telecoms business, DCS revenues stagnated at €3.3 billion. New orders signed in the course of the year amounted to €4.4 billion, bringing the total forward order book to €10.1 billion.

Internally, the year was one of further integration, restructuring and strategic adaptation within the Division's four main business areas: missile systems, defence electronics, services and telecommunications. This restructuring has already produced positive results in the shape of trans-national and cross-business unit synergies, e.g. in the fields of C3I (command, control, communications and information) and ISR (intelligence, surveillance and reconnaissance), air and ballistic missiles defence and homeland security.

Missile Systems

The international integration of MBDA is progressing well, with a focus on synergies through rationalisation of processes and structures and the cross-border coordination of the company's technical and commercial capabilities. With 2002 revenues of €1.8 billion (at 100%) and an order book of over €13 billion, MBDA is the clear market leader in Europe, as well as being the second-largest missile company in the world. Major programmes include the Meteor air-to-air missile, the Aster surface-to-air missile family and the Storm Shadow/Scalp EG stand-off weapon. During 2002 we agreed the creation of the Roxel company (rocket motors), a joint venture with SNPE of France, and signed an agreement with Thales, under which the two partners will produce seekers for more than 6,000 missiles. We also received a contract for €1.8 billion (at 100%) from six European nations to develop and produce the Meteor beyond visual range next generation air-to-air missile.

EADS/LFK, the German arm of the missile business, implemented a successful turnaround programme designed to secure profitability ahead of its planned integration into MBDA. Major successes included the award of the €0.5 billion contract for series production of the Taurus missile, the biggest German missile contract in more than ten years, and the roll-out of the prototype of the Roland midlife improvement programme.

Systems and Defence Electronics

With a 16% increase in order intake for the year, S&DE has achieved a strong position in the European market. It is now a key European player in UAVs (Unmanned Aerial Vehicles), covering all types from light tactical to strategic long range – in which we are working with Northrop Grumman on the EuroHawk. We have also established a joint company with Thales Netherlands to manage combat systems for naval projects including the F124/LCF frigate programme.

Other contracts also demonstrate our prime-contractor capabilities for full systems or subsystems. They include the K130 corvette's command and weapons control system and the Eurofighter Defensive Aids Subsystem, and more recently with Thales, the Moss Sccoa3 (a "system of systems" for air operations command and control for the French Air Force, including the integration of existing and next-generation subsystems).

"In 2002 we not only achieved our planned turn around, we also made significant progress in positioning the division for further growth and new customer/market requirements. Our portfolio and our systems competence enable us to play a key role in networking defence and security solutions for our customer."

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

Tornado flight data evaluation

EADS Services

The Services business unit serves the growing market in outsourced military functions such as infrastructure support and operations, equipment support, training and communications. We also provide automatic testing, systems engineering and engineering solutions.

Acting in a consortium with CSC Ploenzke and Mobilcom, we are the preferred bidder on the €6.5 billion Herkules project for the outsourcing of the Bundeswehr's communications and IT. The project should be awarded in 2003 and our share of the project would amount to €1.5 billion over the next ten years. With Aviation Defence Service Avdef (an armed forces training company in which we purchased a majority holding in 2001), and the newly-acquired GFD, we are a strong contender for the CATS (Combined Aerial Target Services) contract for the UK. GFD has also been assigned a flight operations contract – including target towing and electronic warfare (Eloka) training – by the German BWB. An additional contract will be booked in 2003 and will run from 2004 to 2008. We play a lead role for the operations part of the Airtanker consortium bidding for the 27-years FSTA (Future Strategic Tanker Aircraft) contract in the UK to provide air refuelling services to the RAF.

We won important automatic testing orders from Dassault Aviation and from the French procurement agency DGA (Délégation Générale pour l'Armement). With Honeywell and despite decreasing airlines business in US, our Test & Services activity confirmed its leading position with an important contract with Delta Airlines for a new generation of test benches.

EADS Telecom

The Telecommunications business unit completed its process of integration in a difficult market for secure communication systems, which saw many major prospective government contracts postponed until 2003.

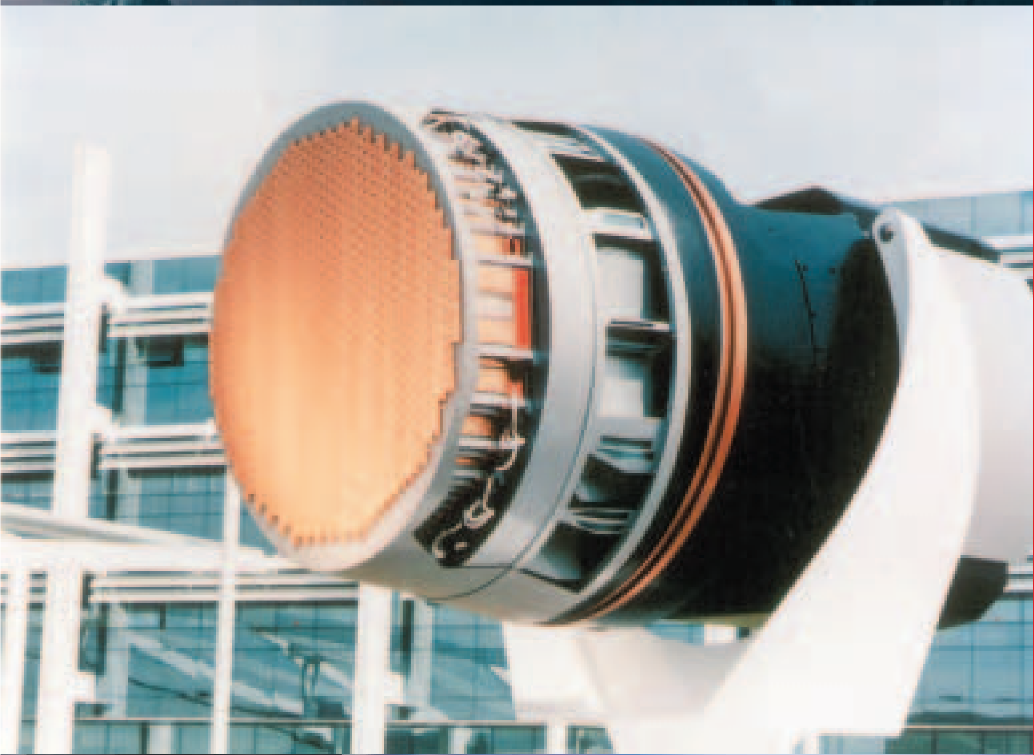
In the field of Public Safety, important export markets like Mexico experienced slowdowns; however, programmes including the police networks Acropol in France and Sirdee in Spain made good progress. We entered in the final phase in providing improved service for the entire Acropol network in Paris, which will be extended throughout France in a programme extending to 2006. We have made an offer for our digitalised speech and data transmission system Tetrapol, a network for public authorities and security organisations in Germany. In the US, we are leading the P25 Phase II standard definition of wireless communications for safety and security and are working towards a commercial outcome through the recognition of Tetrapol 3G as a US Apco Standard.

In recent defence successes, EADS Telecom has been contracted to supply over €200 million of communication equipment to the UK MoD. It is the prime contractor for the British theatre network called Twacn/Cormorant and a major subcontractor for the Bowman Communication System. In the tactical field, it has also delivered communication networks for Autoko 90, the semi-mobile tactical network of the German army. In the infrastructure field, it is deploying the French Defence Systems for garnisons, or for deployable forces. Other successes include a Stimms (Surface Towed Influence Magnetic Sweep) programme with the US, in the naval field. Despite orders delayed, the company has favourable prospects as preferred bidder in very large programmes (Herkules for the German Bundeswehr, Skynet 5 in the UK). EADS Telecom will also provide the Rapid Reaction Forces of the German army to be deployed in Afghanistan with four Tetrapol communication shelters and 1200 terminals and mobiles.

Outlook

We continue to develop our position in networking defence and security systems, investing in the technologies and skills that enable us to provide customers with complete solutions – leveraging our broad product portfolio and synergies between our business units and other EADS Divisions. After successful turnaround in 2002, the Division expects to increase EBIT in 2003. Our unique competences, together with intelligent restructuring for greater efficiency and the ramp up of our missile programmes should produce fast growing results over the next few years.

Meteor is a next-generation air-to-air missile ordered for development by six European nations, and produced by MBDA, now the world's second-largest missile company. MBDA missiles are available for virtually every mission in the defence catalogue.



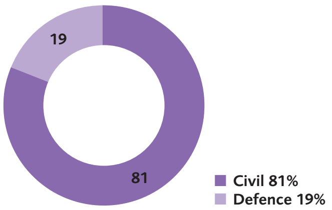
Active phased array radar. EADS offers a comprehensive range of fixed and mobile air defence, radar, electronic warfare, identification, coastal surveillance and coastal protection systems.

IRIS network – a secure telecomunications network for the Mexican police force.

The Division is acting to return to profitability in 2004. Integrating Astrium will improve operational flexibility, and preferred-bidder status for Skynet 5 is a key step forward. European approval for the development of Galileo puts Astrium closer to playing a fundamental role in the project.

millions of euros	2002	2001	variation
Revenues	**2,216**	2,439	**–9%**
EBIT	**–268**	–222	**–21%**
Order intake	**2,145**	1,333	**61%**
Order book	**3,895**	3,796	**3%**

Revenue breakdown by market in 2002



The Division's revenues decreased from €2,439 million to €2,216 million, reflecting a tougher commercial telecommunications market, increased competition among launch operators and generally reduced budgets for scientific and observation satellites. The Division posted significant EBIT losses of €268 million in 2002 (after an EBIT loss of €222 million in 2001), mainly driven by provisions due to the cancellation of one telecom satellite contract, restructuring costs and provision for depreciation of participations (in particular Arianespace). More encouragingly for the future, the value of new orders has increased, from €1,333 million to €2,145 million, including, namely, a civil telecom satellite contract with Spain and a contract with the French MoD. The Skynet 5 contract with UK MoD, expected for 2003, will further boost this figure.

Key developments during the year included a full reorganisation of Astrium satellites into four business Divisions (Military Communications Systems; Telecom Satellites; Earth Observation, Navigation and Science; Equipment and Subsystems). Moreover, EADS full ownership of Astrium since January 2003 (subject to European Union approval) is clearing the path for management which is preparing a new legal structure for the Space division comprising two subsidiaries, one focused on Satellite Systems, the other on Launcher and Space Infrastructure activities. This new structure will allow better programme management and increased industrial efficiency by concentrating the respective industrial responsibilities accordingly. It is expected to contribute to the return to profitability targeted for 2004.

Ariane

EADS is the prime industrial contractor for the Ariane launcher. Twelve Ariane launches took place in 2002 (eight Ariane 4, and four Ariane 5), and Arianespace won 11 of the 15 new launch orders placed during the year.

The December launch of a new version of Ariane 5 designed to launch more than 10 tons resulted in a mission failure. Together with European Space Agency, national agencies, and our other industrial partners we are working intensively to return Ariane 5 to flight status, so that the impact on 2003 launch planning is minimised.

In parallel, Industry and Agencies in a joint effort are moving toward a significantly reduced cost base for the immediate future, in order to match the international competition.

International Space Station

EADS is playing a key role in the development and utilisation of the International Space Station. It is the prime contractor for the development and construction of the Automated Transfer Vehicle (ATV), an unmanned transport system for the regular delivery of fuel and other supplies to the ISS. The ATV also provides a reboost capability and a waste disposal function. Its first flight is planned for 2004. EADS is also the prime industrial contractor for the main European contribution, Columbus, a manned ISS module for zero-gravity research to be launched in 2004.

Other launcher activities

Eurockot Launch Services, our 51%-owned joint venture with the Krunichev space technologies company of Russia, carried out two successful launches (Grace and Iridium) in 2002, and won four launch contracts.

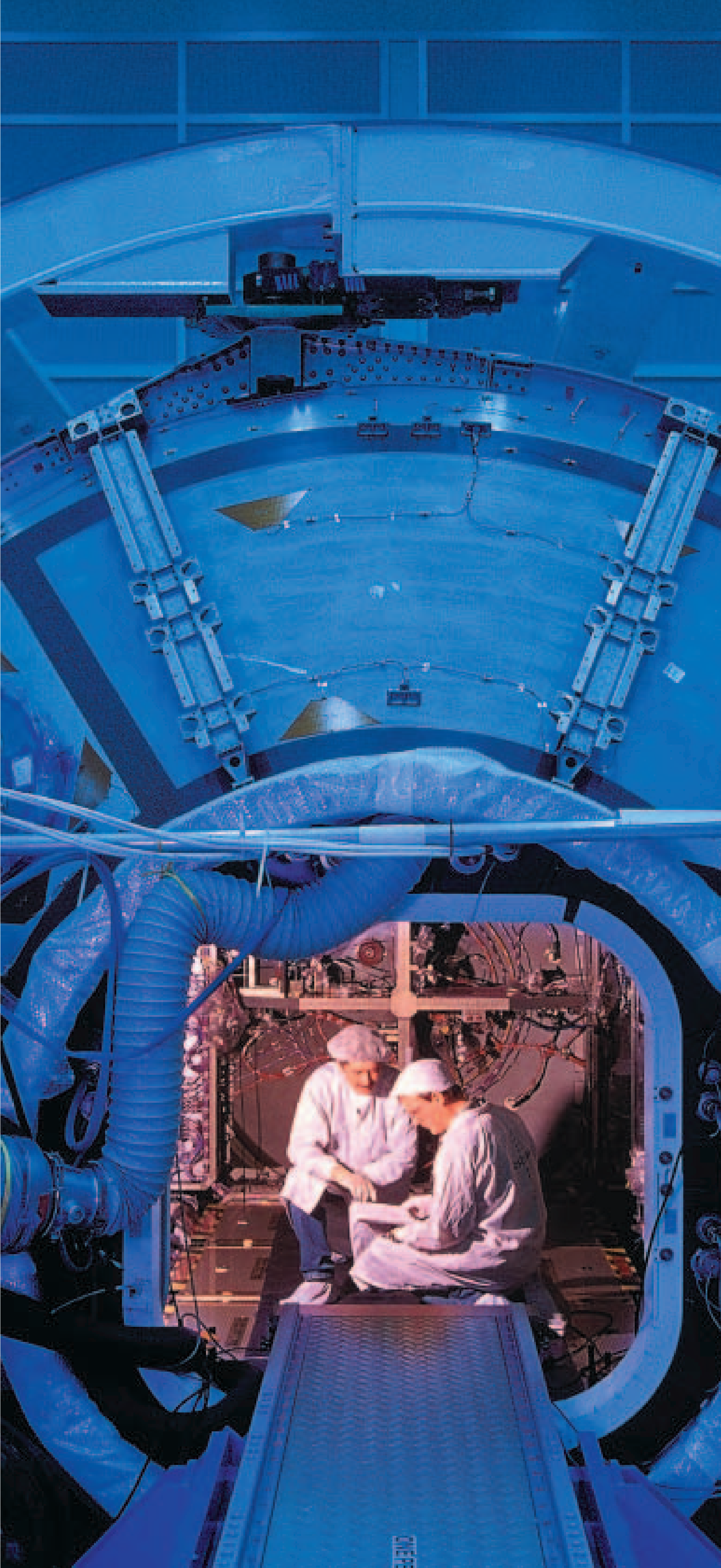
Starsem, a joint venture owned by EADS (35%), Arianespace (15%) and the Russian Space Agency (25%) and Samara Space Center (25%) has, together with ESA and Arianespace, defined the conditions for offering Soyuz launches from Kourou. A final decision is expected during the next ministerial conference during the first months of 2003.

Defence

A key element in EADS' strategy is growing participation and leadership in European military space programmes. We made a major advance in February 2002 when Paradigm (fully owned by EADS from early 2003) was pre-selected by the UK MoD to deliver new-generation space-based defence communications using the Astrium Skynet 5 satellites. Total potential revenues for Paradigm are expected to be over £2 billion. In this programme, expected to be booked in 2003, Astrium should provide most of the telecommunication infrastructure, including satellites, ground system and terminals.

The new generation submarine-based M51 ballistic missile programme achieved a major milestone, with hardware tests successfully validating the system concept during the year.

In July, EADS announced a Memorandum of Understanding with Boeing on the Missile Defence System project.



"Our primary focus today is on restructuring the space activities to weather the current harsh environment of the space industry. With our simplified shareholder structure we can now accelerate this move and target return to profitability in 2004."

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

Committed to expanding humanity's horizons, the Space Division acts as main actor in space infrastructure activities for international and European major programmes.

Telecommunications Satellites

Astrium has won the contract to build Hispasat's most powerful satellite, Amazonas. With 51 transponders, it will provide a full range of telecommunication services to Brazil and to North and South America, as well as a transatlantic link to Europe.

The Hellas-Sat Consortium has chosen Astrium to deliver its first satellite. Hellas-Sat plans to offer digital broadcasting and TV services and will provide a key telecom infrastructure for the 2004 Olympic Games in Athens.

Finally, Astrium started the year 2003 successfully in this business activity by booking the Anik F1-R contract with the Canadian Telesat company.

Navigation

In March, Governments of the European Union approved the Galileo programme. This is Europe's global satellite navigation system proposed jointly by the European Commission and ESA (European Space Agency). The Galileo project represents a total potential contract value of more than €3 billion and, as the majority shareholder in Galileo Industries, Astrium is playing a crucial role in the design and development of the system, which is scheduled to be booked in 2003 and operational in 2008.

Earth Observation and Science Satellites

In January, Astrium signed the contract to build the Cryosat satellite for the ESA. This satellite will carry radar altimetry, with a mission to provide more precise surface data (in 3D, for the first time) to climatological researchers. In April, Astrium signed another contract with DLR, the German space agency, to build TerraSar – an X Radar earth observation satellite.

The Astrium-built Envisat satellite was successfully launched in March and has since functioned perfectly. The biggest earth observation satellite ever built by Astrium boosts Europe's capability to study climate changes.

SPOT 5 was successfully launched with Ariane 4 in May. The Astrium–built satellite is providing unique capabilities to the world's leading earth observation company Spot Image. EADS is the major industrial shareholder of Spot Image.

In August, an Ariane 5 placed MSG-1 into orbit. Meteosat Second Generation is the first of an entire system of meteorological satellites provided by Astrium and will allow for an improved weather forecast accuracy.

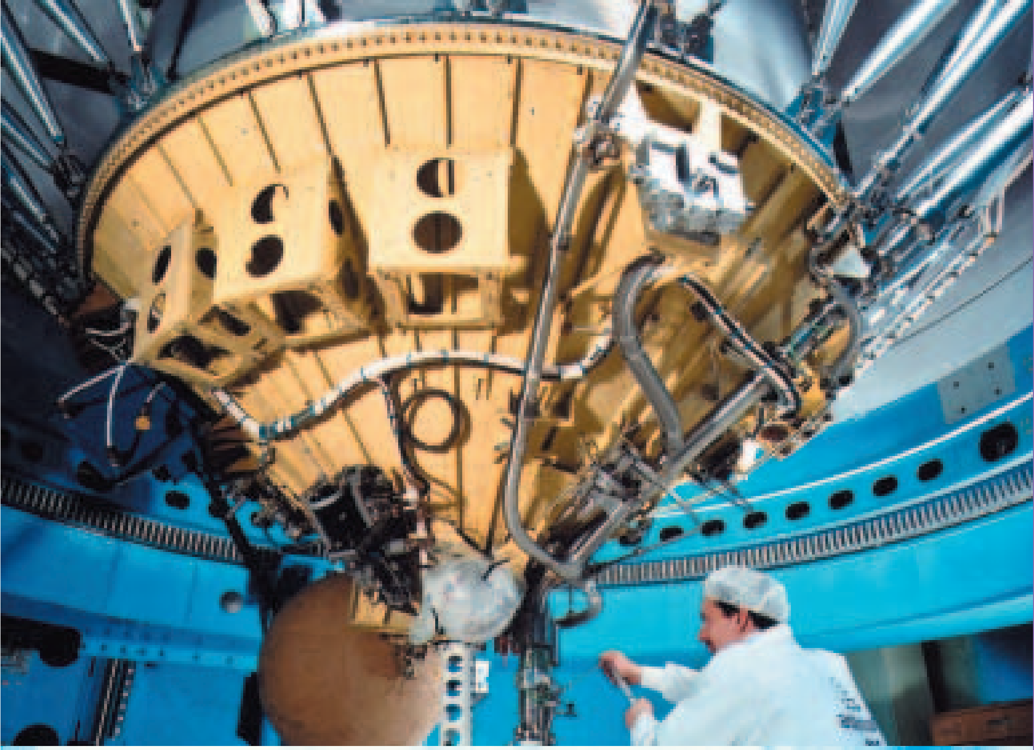
Astrium received the contract for Venus Express, ESA's first mission to Earth's nearest planetary neighbour. This scientific mission is based on the Mars Express platform, which will be launched in 2003 from Baikonour by Starsem. Venus Express will also be launched by Starsem in 2005.

Outlook

The key priority for 2003 is to implement a fundamental restructuring of EADS Space, with the aim of reducing the cost base and of focusing even more on customer needs. In this context, the Division announced a jobs cuts up to 3,300 people. This includes the reduction of 1,600 jobs already announced in 2002 and an additional restructuring of 1,700 job positions that consists of:

- Establishment of centres of competence (taking "make-or buy" decisions and, when "make" is decided, concentrating the activity on one or two sites),
- Further reduction in functional staff,
- Reorganising of sourcing and implementation of ambitious sourcing savings targets,
- Optimisation of engineering, system design, integration and test.

This plan is designed to allow the Division to be profitable in 2004 and to lead further European sector consolidation.



Cryogenic motor for the upper stage of Ariane 5. As industrial architect for the Ariane family of launchers, the Space Division manages the entire launcher programme and is prime contractor for all the Ariane 5 stages. It produces the Vehicle Equipment Bay and several sub-systems.

Ariane 5 launched from the Guiana Space Centre in Kourou. The new generation Ariane 5 launcher was developed to keep pace with trends in the commercial launch market, especially larger and heavier satellites.

Helios optical military observation satellite, which offers images at very high resolution. EADS is the prime contractor for this Europe's only military reconnaissance satellite in service to date.

Corporate governance

Members of the Board of Directors

Manfred Bischoff
Member of the Management Board of DaimlerChrysler
Chairman of EADS
Jean-Luc Lagardère †
General and Managing Partner of Lagardère
Chairman of EADS
Philippe Camus
EADS Chief Executive Officer
Rainer Hertrich
EADS Chief Executive Officer
Eckhard Cordes
Member of the Management Board of DaimlerChrysler
Pedro Ferreras
Chairman of the Board of Directors of Aluminio Catalán
Noël Forgeard
Airbus President and Chief Executive Officer
Jean-René Fourtou
Chairman and Chief Executive Officer of Vivendi Universal
Louis Gallois
President of SNCF
Michael Rogowski
Chairman of the Supervisory Board of J.M. Voith
President of the Federation of German Industry

Arnaud Lagardère has been appointed as one of the Chairmen of the Board of Directors and as a member of the Audit and Personnel committees, with effect from his appointment as an EADS Board member by the Annual General Meeting on 6th May 2003.

It is expected that **Hans Peter Ring**, Chief Financial Officer, will be replacing Axel Arendt, who has left the Company. This will be submitted to the Annual General Meeting on 6th May 2003.

Code of conduct

EADS, as a Dutch company is governed by the laws of The Netherlands, in particular by Book 2 of the Dutch Civil Code and by its articles of association.

EADS shares are listed in France, Germany and Spain. EADS is accordingly subject to various regulations[1] that are described in detail in the Reference Document (see section 3). It must be noted that specific company law regulations enforced in these countries such as the French "loi NRE" on Corporate Governance are not applicable to EADS.

Nevertheless EADS has adopted since its creation a high standard of internal rules relating to Corporate Governance such as: the Internal Rules of the Board of Directors, the Insiders Trading Rules and the Code of Ethics. For a complete overview on these rules please refer to the Reference Document section 6.

The Board of Directors

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

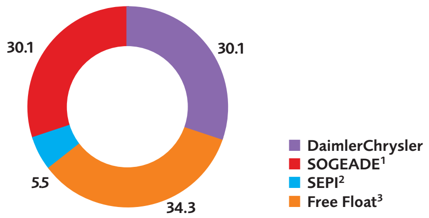
The Board consists of eleven members; four nominated by DaimlerChrysler, four by SOGEADE, one by SEPI and two independent Directors, one nominated by DaimlerChrysler and one by SOGEADE.

The independent directors (Jean-René Fourtou and Michael Rogowski) have no connection with the DaimlerChrysler, SOGEPA or Lagardère groups or French State.

Each member has been appointed for a term expiring at the Annual General Meeting of the Company to be held in 2005. Members of the Board will be elected at such meeting and at each fifth Annual General Meeting. The General Meeting of shareholders may suspend or dismiss any member of the Board.

[1] for example: For The Netherlands: section 5 of the Netherlands Market Supervision Act 1995
For France: Règlement COB 98-01 et 98-07
For Spain: the Ministerial order of 18th January 1991
For Germany: § 15 and 65 of the German Stock Exchange Admission Regulation

Shareholder structure
as of 31st December 2002 (as %)



[1] Lagardère together with French financial institutions and SOGEPA (French state holding company)
[2] Spanish state holding company
[3] Including EADS employees, own share buy back and, about 3% held directly by DaimlerChrysler and the French State.

The Chairmen

The initial Board of Directors appointed two Chairmen, one chosen from the DaimlerChrysler-nominated Directors and one chosen from the SOGEADE-nominated Directors.

The Chairmen ensure the smooth functioning of the Board of Directors in particular with respect to its relations with the Chief Executive Officers.

The Chief Executive Officers

The Board appoints two Chief Executive Officers to be responsible for the day-to-day management of the Company. One is chosen from the DaimlerChrysler-nominated Directors and one from the SOGEADE-nominated Directors.

Board meetings

The Board of Directors met seven times during 2002. The average attendance rate at such meetings was 77%. Topics discussed and operations authorised at these meetings included EADS strategy, reorganisation, processes (such as the Space Division restructuring and the creation of EADS North America), major business issues (such as the Airbus Production Plan 2002/2003; the Skynet 5/Paradigm contract and the US Coast Guard Deepwater Programme), major investment projects (such as the A400M Programme), the approval of operation plans, budget, hedging policy, key merger and acquisition transactions, remuneration (including stock options plans and employee share ownership plans) and the group's financial results and forecasts. During this period, the Board of Directors was regularly informed of developments through business reports from the Chief Executive Officers, rolling forecasts and strategic and operational plans.

During 2002, the Board of Directors also accepted the resignations of Axel Arendt as member of the Board of Directors, member of the Executive Committee and Chief Financial Officer and Alberto Fernández as member of the Executive Committee, approved the appointments of Ralph Crosby, Francisco Fernández-Sainz, Jussi Itävuori and Hans Peter Ring (as Chief Financial Officer) as members of the Executive Committee and approved notably the appointments of Antoine Bouvier, Fabrice Brégier, Patrick Jourdan and Marwan Lahoud as Chief Executive Officers of, respectively, Astrium, Eurocopter, EADS Telecom and MBDA.

Each director has one vote, and the quorum for the transaction of business at meetings of the Board requires the presence of at least one of the SOGEADE-nominated Directors and one of the DaimlerChrysler-nominated Directors. If any major change to the CASA Industrial Plan and/or its implementation is to be decided, the SEPI-nominated Director must also be present or represented.

Under the rules, the Board of Directors is empowered to form committees from its members.

The key responsibilities of the Board of Directors include:

- approving any change in the nature and scope of the activities of the Group;
- approving the overall strategy and the strategic plan of the Group;
- approving the business plan and the yearly budget of the Group;
- setting the major performance targets of the Group;
- appointing the members of the Executive Committee (see below);
- approving proposals for appointments of the chairmen of the supervisory board (or similar bodies) and the chief executive officer (or equivalent position) of other important EADS Group companies and Business Units;
- approving material changes to the organisational structure of EADS;
- approving major investments, projects or product decisions or divestments of EADS contemplated in the business plan with a value exceeding €200,000,000;
- approving major strategic alliances and cooperations of EADS;
- approving any material decision affecting the ballistic missiles activity of the Group;
- approving matters of shareholder policy, major actions or major announcements to the capital markets;
- approving other measures and business of fundamental significance for the Group or which involve an abnormal level of risk.

The Audit Committee

The Audit Committee makes recommendations to the Board of Directors on the appointment of auditors and the approval of the annual financial statements and interim accounts, and monitors the adequacy of the EADS group's internal controls, accounting policies and financial reporting. The Audit Committee was chaired by Manfred Bischoff and Jean-Luc Lagardère* and also included Eckhard Cordes and Louis Gallois. It met twice during 2002 with a 100% attendance rate to review the 2001 results as well as the half-year results for 2002 of the Company.

The Personnel Committee

The Personnel Committee makes recommendations to the Board of Directors on 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 and Executive Committee members. The Personnel Committee was chaired by Manfred Bischoff and Jean-Luc Lagardère* and also included Philippe Camus, Rainer Hertrich, Eckhard Cordes and Louis Gallois. It met five times during 2002 with a 90% average attendance rate to review the bonus payments for 2001, as well as the remuneration policy and the stock option plan for 2002.

* deceased during his term in office

The Executive Committee

The Chief Executive Officers, supported by an Executive Committee, are responsible for managing the day-to-day operations of the Company. The Executive Committee, chaired by the Chief Executive Officers, also comprises the heads of the major operational and functional Divisions of the EADS group. The Executive Committee met 12 times during 2002.

The following matters are discussed, among others, at the Executive Committee meetings:

- setting up and control of the implementation of the strategy for EADS businesses;
- management, organisational and legal structure of the EADS Group;
- performance level of the EADS Group's businesses and support functions; and
- all business issues.

The internal organisation of the Executive Committee is defined by the business allocation among the members under the supervision of the Chief Executive Officers. Notwithstanding the joint responsibilities as defined above, each member of the Executive Committee is individually responsible for the management of his portfolio and must abide by decisions taken by the Chief Executive Officers and/or the Executive Committee, as the case may be.

The Chief Executive Officers endeavour to reach consensus among the members of the Executive Committee on the matters discussed at the Executive Committee meetings. In the event of consensus not being reached, the Chief Executive Officers are entitled to decide the matter. If there is a fundamental or significant disagreement with respect to any undecided matter, the dissenting Executive Committee member may request that the Chief Executive Officers submit such matter to the Chairmen for their opinion.

The term of office for the Executive Committee members is five years.

Composition of the Executive Committee

Philippe Camus Chief Executive Officer
Rainer Hertrich Chief Executive Officer
François Auque Head of Space Division
Ralph D. Crosby Jr. Chairman and CEO of EADS North America
Thomas Enders Head of Defence and Civil Systems Division
Francisco Fernández Sainz Head of Military Transport Aircraft Division
Noël Forgeard Head of Airbus Division and President and CEO of Airbus
Jean-Louis Gergorin Head of Strategic Coordination
Jean-Paul Gut Head of EADS International
Gustav Humbert Airbus Chief Operating Officer
Jussi Itävuori Head of Human Resources
Hans Peter Ring Chief Financial Officer
Dietrich Russell Head of Aeronautics Division

For details of the Executive Committee's members, see p 14.

Corporate social responsibility

EADS policy is to implement and maintain the highest standards of ethical and social responsibility both in the running of its various businesses and as its activities relate to the wider communities in which it works. Standards are laid down in a formal Ethics Code and in rules on insider trading.

Defining corporate social responsibility

Corporate social responsibility (CSR) requires companies such as ours to manage their impacts on society and the environment as a core part of their business practice.

EADS strives to be a good citizen and to manage its impacts in as responsible fashion as possible. We have reported on our activities in this area in previous Annual Reports.

However, as in every other aspect of our business, we are always seeking to improve. The increasing profile of CSR as a topic provides us with the opportunity to explore ways in which we can take a more systematic approach to the subject. We have begun this process by defining the most significant impacts that our business has on the societies and environments where we work.

The issues for EADS

CSR and the defence sector

EADS is committed to respecting international and national regulations governing sales and marketing of sensitive products and technologies, especially in the case of those products and services (representing approximately 20% of our revenues) which relate to legitimate national defence and sovereignty. We abide by all national and international export and customs procedures which regulate where, when and how EADS can sell goods, products and technology or exchange information.

Occupational health and safety

We have a duty to ensure that the working conditions for our staff and contractors are as safe and risk-free as possible.

To ensure this, all work places are carefully evaluated to identify any potential risks for employees, operators or contractors. Necessary prevention and protection measures are defined and implemented in accordance with this risk analysis.

In addition, safety and ergonomics are integrated in the design of all work places and in the construction of facilities to ensure the best working conditions for employees. Employees undergo regular and thorough medical examinations to detect any health problems and to promote healthier lifestyles.

Transparency in business practices

It is essential that we are able to demonstrate that all our business transactions are conducted in accordance with national and international laws.

EADS has a code of ethics which states clearly what behaviour is expected from our staff, what behaviour will be rewarded, what are the rights and duties of all participants involved in the Group activities. EADS has repeatedly stated its commitment to respecting acquisition rules and procedures applicable in every country where we operate.

We have no "privileged or special" relationships with business partners or suppliers, which would not be justified on objective economic or technical grounds. The acceptance or granting of gifts or other advantages is only authorised under strict conditions of mandatory disclosure and the approval of management.

Environment

We accept that our business has significant impacts on the environment. To respond to this responsibility, we have implemented a corporate environmental policy 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.

Our business units are now working towards the implementation of Environmental Management Systems based on ISO 14001 standard or EMAS. This will ensure that consistent measures for the improvement of EADS environmental performance are systematically adopted in all sectors of activity.

Airbus environmental report

Top: EADS supported victims of the German flood
Bottom: EADS has been a patron of l'Envol centres since 1998

Supply chain

EADS's Code of Ethics makes clear the behaviour that we expect not just from our staff, but from all those with whom we deal, including our suppliers. For example, since the incorporation of Airbus as a single company, a global procurement policy has been implemented. Suppliers are required to comply with this policy as a condition of doing business with Airbus.

Promoting learning

The future of the economies in which we work depends in part on the development of a highly-skilled workforce. To this end, EADS supports training initiatives both for its own workforce and in wider society. For example, EADS is a founder member of the European School of Management and Technology (ESMT) in Berlin.

EADS is also a partner in TIME, one of the major European networks, and plays an active role within the Club Time Plus of the Ecole Centrale, Paris. Run in partnership with major international companies, TIME (Top Industrial Managers for Europe) is a European double degree programme which enables French and foreign students to obtain two engineering degrees.

In addition, EADS financially supports and participates in a wide range of teaching activities at thirty of the main universities and schools (Polytechnique, Ensae, Dauphine and others) in France.

Donations

As part of our commitment to the promotion of learning, EADS also makes donations to educational and charitable institutions in our home countries of France, Germany and Spain. During 2002, around €6 million were donated to a number of high schools, universities as well as charitable organisations in these countries.

Community engagement

Like any large company, we believe that we have a responsibility to the communities near our plants and offices. We also respond to other community concerns where it is appropriate.

For example, EADS provided €1 million to help the victims of the floods in 2002 in Germany. Donation campaigns were organised at several company locations. All Divisions provided help to affected suppliers and EADS staff.

EADS has also been a patron of "l'Envol" centres since 1998. These centres offer recreation under medical supervision to children with serious illnesses. The aim of these centres is to help children aged between 7 and 17 to enjoy life in spite of their symptoms.

Financial policy

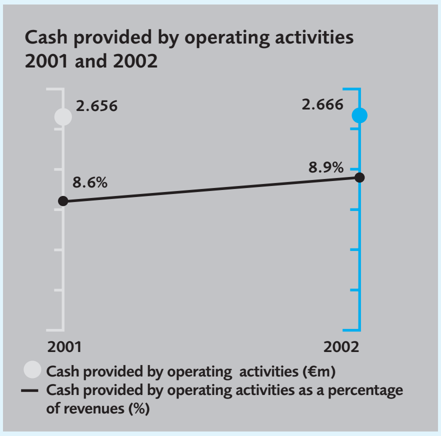
"Financial flexibility is key to our business"

Q:
What are the main financial challenges EADS faces and how do you manage them?

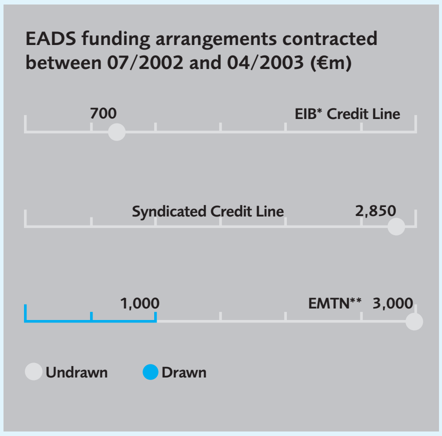
A:
The biggest challenge is clearly the volatility of today's political and economical environment. In order to act and react quickly, EADS has to be financially flexible. Active cash management is therefore one of my top priorities. Preserving cash on the one hand and at the same time investing into future programmes – like the very large Airbus A380 – as well as supporting customers' financing for our products in a prudent way is a tightrope walk. Our continuously strong balance sheet and cash generation shows that we are successfully managing this challenge [Graph 1]. This is also reflected in the confirmation of our long-term ratings beginning of 2003 (A from Standard & Poor's and A3 from Moody's). In addition, we have made sure that we have the financial flexibility we need for our business in a downturn phase through implementation of credit lines and the successful placement of our first EURO bond [Graph 2].

Another financial challenge derives from the fact that EADS is selling products, mostly aircraft, in US dollars, generating around US$ 20 billion of annual revenues. We automatically hedge about half of this amount through dollar denominated purchases. It is the task of the finance function to hedge the remaining exposure based on our conservative hedging policy which permits us to hedge our firm orders. During the last 24 months EADS was able to benefit from a strong dollar – 'locking in' attractive rates for the mid-term [Graph 3]. However, in the long run we cannot rely on a 'strong' dollar. We therefore have constantly to improve our productivity and cost structure to ensure long-term competitiveness.

Graph 1:



Graph 2:



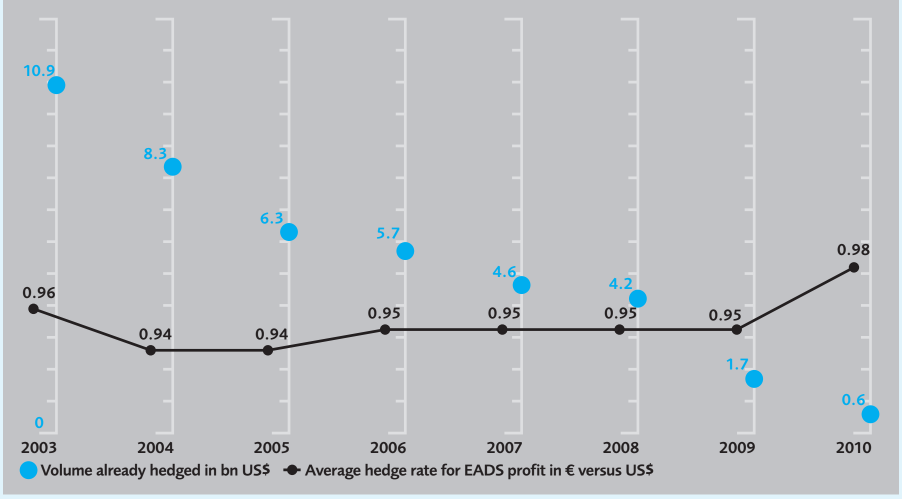
* EIB: European Investment Bank
** EMTN: European Medium Term Note Programme

Q:
What is the potential for profit and cash growth at EADS?

A:
Today EADS is going through a down-cycle in commercial aviation and is facing extraordinarily severe market difficulties in the space business. On the other hand there are opportunities in our Defence business due to stabilising or even increasing governmental defence budgets. Looking into the future, the mid-term potential for higher profits and cash generation is significant.

In 2002 Airbus generated an operating margin of 7% of revenues. This sound result was achieved with a delivery rate of 303 aircraft, while in a stabilised market, assuming a 50% market share, around 400 aircraft per year would be a normal level of activity. In addition, today's Airbus profitability is being affected by high investments for the future. Today Airbus invests 4 to 5% of its annual revenues in the development of the A380 programme. With the ramp up of A380 deliveries from 2006 onwards, Airbus will see decreasing development costs and at the same time increasing revenues, profits and cash flows.

Graph 3:



Hedging portfolio of EADS as of December 2002

Thanks to our integration and restructuring efforts and a stabilising business, the Defence and Civil Systems division – for the first time since the creation of EADS – posted a profit in 2002. More generally for all our defence businesses, we benefit from the ramp up of large defence programmes (e.g. Eurofighter combat aircraft, Tiger and NH90 helicopters, Aster and Storm Shadow missiles), which will improve EADS results. As strategically planned, we are on track towards a more balanced portfolio between commercial and governmental business – in terms of revenues as well as in terms of profit and cash flow.

Q:
What is your mission?

A:
I am committed to generating value for our shareholders. By providing the right methodologies, tools and procedures, the finance function enables the allocation of our financial resources to the programmes that can create additional value and provide an optimum balance between risk and reward. In addition we will continue to improve the transparency of our communication towards shareholders and the financial community.

Hans Peter Ring
Chief Financial Officer
EADS Executive Committee Member

1 *Introduction and overview*

The following discussion is based upon the audited consolidated financial statements of EADS for 2002 and 2001 (together, the **"Financial Statements"**). The Financial Statements were prepared in accordance with International Financial Reporting Standards (**"IFRS"**) issued by the International Accounting Standards Board (**"IASB"**). Contrary to International Accounting Standard (**"IAS"**) 38, Intangible Assets, which requires development costs to be capitalised if certain conditions are met, the Group expenses all internally funded development activities as incurred.

With consolidated revenues of €29.9 billion in 2002, EADS is Europe's premier aerospace and defence company and the second largest aerospace and defence company in the world. In terms of market share, EADS is among the top two manufacturers of commercial aircraft, civil helicopters, commercial space launch vehicles and missiles, and a leading supplier of military aircraft, satellites and defence electronics. In 2002, it generated approximately 80% of its total revenues in the civil sector and 20% in the military sector. As of 31st December 2002, EADS' active headcount was 103,967.

EADS organises its businesses into the following five operating Divisions:

- **Airbus:** commercial jet aircraft of more than 100 seats;
- **Military Transport Aircraft:** military transport and mission aircraft;
- **Aeronautics:** 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:** missile systems, systems and defence electronics, logistics, training, testing, engineering and other related services, and military and commercial telecommunications solutions; and
- **Space**: satellites, orbital infrastructure, launch vehicles and launch services.

In general, these manufacturing businesses are characterised by long-term production cycles and are subject to medium-term and long-term trends in the civil aviation, aerospace, defence and telecommunications industries. Another significant characteristic of many of these businesses is the extent of their dependence on governmental budgets.

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

2 *Accounting considerations*

2.1 Changes in consolidation perimeter

Formation of MBDA: On 18th December 2001, EADS, BAE Systems and Finmeccanica formed MBDA, which combines the businesses of MBD and of Aerospatiale Matra Missiles ("AMM"), and the missile systems activities of Alenia Marconi Systems ("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 reflected a 50% consolidation of MBD and a full consolidation of AMM through to the formation of MBDA on 18th December. From 18th December, and as reflected in the 31st December 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. In 2002, EADS recognised a full year of MBDA's profit and loss account in its consolidated income statement.

Acquisition of Tesat Spacecom and Cogent: Following the acquisitions of Tesat Spacecom on 30th November 2001 and Cogent Defence Systems on 1st December 2001, the 2002 operations of these companies were included fully for the first time in the EADS 2002 consolidated income statement.

Disposal of Aircelle and EADS Matradatavision ("MDTV"): On 6th March 2002, EADS sold its interest in the Aircelle joint venture to Snecma for a disposal gain of €63 million. On 20th November 2002, IBM purchased MDTV (except for two remaining subsidiaries of MDTV to be dealt with separately) from EADS for €12 million. From the dates of disposal, these businesses are no longer included in the Financial Statements.

2.2 Dilution gains

The 2001 transactions leading to the formation of Airbus S.A.S. 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 consolidated net assets for EADS. Consequently, EADS recognised dilution gains of €2,537 million for a 20% dilution stake in Airbus, and of €257 million for 12.5% of MBD and 62.5% of AMM, all net of transaction-related charges. These dilution gains have been reported in other income and were deemed items of a non-recurring nature by EADS. See "Operating Results – Consolidated Income Statements – Use of EBIT Pre-Goodwill Amortisation and Exceptionals".

2.3 Fair value adjustments

The merger of the operations of Aerospatiale Matra ("ASM"), Dasa and CASA leading to the creation of EADS in 2000 was recorded using the purchase method of accounting with ASM as the acquirer. Accordingly, the book value of certain assets and liabilities, mainly property, plant and equipment and inventories, was adjusted by an aggregate amount of €1,755 million, net of income taxes, to allocate a portion of the respective fair market values of Dasa and CASA at the time of the merger (the **"fair value adjustments"**). These aggregate additions in value are generally being depreciated over 4 to 15 years for fixed assets and were depreciated over less than 24 months for inventories. In addition, in 2001 in connection with the formation of Airbus S.A.S., EADS adjusted the book value of Airbus fixed assets and inventories by an aggregate amount of €319 million, net of income taxes, to reflect their fair market values. The fair value adjustments are recorded as depreciation in the consolidated income statements classified within cost of sales. For management reporting purposes, EADS treats these depreciation charges as non-recurring items. See "Operating Results – Consolidated Income Statements – Use of EBIT Pre-Goodwill Amortisation and Exceptionals".

2.4 Impairment of assets

When, in the view of Management, a triggering event such as an adverse 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.

As was the case in 2001, EADS conducted further impairment tests in 2002 on the net assets of businesses in the Space Division resulting in a goodwill impairment charge of €350 million relating to the commercial space business. See "Operating Results – EADS Results of Operations – 2002 to 2001 Comparison – Consolidated Amortisation of Goodwill and Impairment Tests" and "Notes to the Consolidated Financial Statements – Note 10: Intangible assets".

2.5 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 contractually financed in whole or in part by a customer, the externally financed portion is recognised as revenues. While EADS' internally financed research and development costs are reflected in the consolidated income statement under research and development, the costs of externally-financed research and development are reflected under cost of sales.

The accounting treatment for research and development costs adopted by EADS does not conform to IFRS, which the Company otherwise follows in the preparation of its consolidated financial statements. IFRS 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 IFRS makes EADS more directly comparable with US companies in the same sector, and reflects Management's preference for a conservative treatment of R&D expenses.

In 2002, the depreciation of jigs and tools was recorded in cost of sales in accordance with IFRS. In prior years, it had been recorded in research and development. For reasons of comparability, the 2001 consolidated income statement has been restated to reflect jigs and tools depreciation (€205 million) in cost of sales. See "Notes to the Consolidated Financial Statements – Note 6: Functional costs and other expenses".

2.6 IAS 39 – Currency hedge accounting

Historically, EADS' currency hedge portfolio consisted of both micro and macro hedges. As a result of the strict implementation of IAS 39, EADS assures that the significant variations in financial income that were experienced in 2000 are significantly reduced and that changes in net income are more in line with variations in operating income than they have been. In compliance with IAS 39, from 1st January 2001, all derivatives are now recognised on the balance sheet at fair market value.

Micro hedges. When hedges form a hedging relationship with customer orders to which they specifically relate, they qualify for IAS 39 hedge accounting and are referred to as "micro" hedges. Revenues from such customer orders are recorded in Euro at the hedged rate and the impact of the hedges is recognised in gross margin and operating income at the time of revenue recognition. At the end of each accounting period, the value of each outstanding micro hedge contract is marked-to-market in the balance sheet on the basis of the then prevailing forward exchange rate. Micro hedges with positive pre-tax mark-to-market values are included in other assets while micro hedges with negative pre-tax mark-to-market values are included in provisions for financial instruments. Year-to-year changes in the pre-tax mark-to-market value of micro hedges are recognised as adjustments to accumulated other comprehensive income (**"AOCI"**), a component of consolidated shareholders' equity. These recordings are net of corresponding changes to (i) deferred tax assets (for micro hedges with negative mark-to-market valuations) and deferred tax liabilities (for micro hedges with positive mark-to-market valuations) and (ii) minority interests (where the hedge contract is held by an entity that is not wholly owned by EADS, e.g. Airbus). See "Statement of Changes in Consolidated Shareholders' Equity – Accumulated Other Comprehensive Income".

Micro hedges associated with cancelled customer orders, to the extent such cancellations result in overhedging, are deemed terminated for accounting purposes. The sum of (i) changes in the fair value of these hedges since 1st January 2002 and (ii) a reversal of AOCI corresponding to these hedges prior to 1st January 2002, would be recorded in financial income and deferred tax income in the statement of income. In 2002, no such accounting entries were recorded.

While such accounting treatment is in strict compliance with IAS 39, it does not reflect the actual treasury operations with respect to such hedges, which are rolled over. Hedges that are rolled over are then tied to cash inflows from customer orders scheduled at a later date, and are recorded as new micro hedges with a hedged rate consistent with the relevant forward rate at such time. See "Exchange Rate Management Policy – Roll-Overs".

Macro hedges. Hedges that do not relate to a specified customer order, referred to as "macro" hedges, do not qualify for IAS 39 hedge accounting treatment. Upon maturing, they are accounted for in financial result and their impact is not recognised in gross margin or operating income, even though they initially were intended to hedge cash flows from deliveries. At the end of each accounting period, each outstanding macro hedge contract is marked-to-market on the basis of the then prevailing forward exchange rate. Changes in pre-tax mark-to-market values from the previous accounting period are recorded in other financial result. See "Notes to the Consolidated Financial Statements – Note 8: Financial result".

On 1st January 2001, most macro hedges then outstanding were tied to specified customer orders and thereby qualified for IAS 39 hedge accounting treatment. These hedges carry an implicit conversion rate corresponding to the forward Euro/US Dollar exchange rate frozen at 31st December 2000.

As of 31st December 2002, there are no longer any outstanding macro hedges that are not tied to specified customer orders.

Revenues in currencies other than the Euro that are not hedged through financial instruments are translated into Euro at the spot exchange rate at the date the underlying transaction occurs.

3 Policies

3.1 Exchange rate management policy

Most of EADS' revenues are denominated in US Dollars (approximately $20 billion in 2002), with approximately half of such currency exposure "naturally hedged" by US Dollar-denominated costs. The remainder of costs is incurred primarily in Euro, and to a lesser extent, in pounds sterling. Consequently, to the extent that EADS does not use financial instruments to hedge its exchange rate exposure from the time of a customer order to the time of delivery, its profits will be affected by market changes in the exchange rate of the Dollar against these currencies.

Consistent with EADS' policy of generating profits principally from its operations, EADS uses hedging strategies to manage the impact on its profits from the volatility of the US Dollar.

The net exposure is defined as the total currency exposure (US Dollar-denominated revenues), net of the part which is "naturally hedged" by US Dollar-denominated costs.

EADS endeavours to hedge the majority of its net exposure based on firm orders and forecasted transactions. For products such as aircraft, EADS typically hedges forecasted net flows in US Dollars related to firm contracts for the following year up to 2010. The hedged items are defined as the first forecasted highly probable future cash inflows for a given month based upon final payments at delivery. The amount of the first flows is decided by a treasury committee and typically covers up to 100% of the equivalent of the net US Dollar exposure. With respect to the A380, EADS' policy is to hedge 100% of cash inflows from firm orders.

During 2002, hedges covering approximately US$9 billion of EADS' dollar-denominated revenues matured. In 2002, the conversion rate at which Dollar-denominated revenues were accounted for was Euro/US Dollar 0.98. The tables below set forth the notional amount of foreign exchange hedges in place as of 31st December 2002, and the US Dollar rates applicable to corresponding revenues.

in US$bn	2003	2004	2005	2006	2007	2008	2009	2010	Total
Total Hedges	10.9	8.3	6.3	5.7	4.6	4.2	1.7	0.6	**42.2**
Euro/US Dollar	9.1	6.8	5.2	4.8	3.8	3.5	1.4	0.5	**35.1**
Sterling/US Dollar	1.8	1.4	1.0	1.0	0.9	0.7	0.3	0.1	**7.1**
Forward Rates									
Euro/US Dollar	0.98[1]	0.94	0.94	0.95	0.95	0.95	0.95	0.98	
Sterling/US Dollar	1.53	1.53	1.47	1.46	1.46	1.46	1.46	1.49	

[1] Taking into account the release of the mark-to-market provision from previous macro hedges, the rate applicable for EBIT is Euro/US Dollar 0.96.

Roll-overs after 11th September 2001. Downward revisions for deliveries of commercial aircraft, related to the events of 11th September 2001 have resulted in a mismatch between hedged positions and expected cash flows. This mismatched hedge position is being rolled over to subsequent years. Roll-overs are not effected immediately upon the emergence of an overhedge situation, but rather upon maturity of the mismatched hedges. The ensuing hedges have maturities in line with the new expected cash inflows from the customer orders with which they form hedging relationships.

3.2 Interest rate management policy

EADS uses an asset and liability management approach with the objective of limiting its interest rate risk. The Company undertakes to match the risk profile of its assets with a corresponding liability structure. The net interest rate exposure is managed through several types of instruments in order to minimise risks and financial impacts. Therefore, EADS may use interest rate derivatives for hedging purposes.

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

3.3 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 finance and asset value exposure and its evolution in terms of quality, volume and cash requirements intensity. EADS aims to structure all financing it provides to customers in line with market terms for similarly rated debt so as to facilitate any subsequent sale or reduction of such exposure.

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. See "Notes to the Consolidated Financial Statements – Note 24: Commitments and contingencies" for further discussion of EADS' sales financing policies and accounting procedures.

Accounting of sales financing transactions in the financial statements

On balance sheet. When, pursuant to a financing transaction, the risks and rewards of ownership of the financed aircraft reside with the customer, the transaction is characterised as either a loan or a financial lease. In such instances, revenues from the sale of the aircraft are recorded upon delivery, while financial interest is recorded over time as financial result. The outstanding balance of principal is recorded on the balance sheet in other long-term financial assets, net of accumulative write-down. See "Notes to the Consolidated Financial Statements – Note 12: Investments and long-term financial assets".

By contrast, when the risks and rewards of ownership remain with Airbus or ATR, the transaction is characterised as an operating lease. EADS' policy is to not enter into operating leases for new aircraft to be delivered to customers. However, new operating leases may arise in connection with the re-marketing of repurchased or repossessed aircraft. Rental income from such operating leases is recorded in revenues over the term of the lease. The leased aircraft is recorded at cost on the balance sheet as tangible assets, and the corresponding depreciation charge is recorded in cost of sales. See "Notes to the Consolidated Financial Statements – Note 11: Property, plant and equipment".

Certain sales contracts may include the provision of an asset value guarantee (**"AVG"**), whereby Airbus or ATR guarantee a portion of the value of an aircraft at a specific date after its delivery. If the present value of the AVG exceeds 10% of the sales price of the aircraft, the sale of the underlying aircraft is accounted for as an operating lease in the Financial Statements. Upon aircraft delivery, the cash payment received from the customer is recognised on the consolidated balance sheet as deferred income and amortised straight-line up to the last exercise date of the AVG. The production cost of the aircraft is recorded in tangible assets, and the difference between production cost and the AVG amount is depreciated up to the exercise date of the AVG. See "Notes to the Consolidated Financial Statements – Note 11: Property, plant and equipment; and Note 21: Deferred income".

Off balance sheet – contingent commitments. Certain sales financing commitments, such as lease in/lease out structures and certain AVGs, are not recorded on the balance sheet. See "Notes to the Consolidated Financial Statements – Note 24: Commitments and contingencies".

Under lease in/lease out structures, which Airbus and ATR applied in the past to take advantage of certain jurisdictions' leasing-related tax benefits, the risks and rewards of ownership of the aircraft are typically borne by a third party, usually referred to as the head lessor. The head lessor leases the aircraft to Airbus or ATR, which in turn sub-leases it to the customer. To the extent possible, the terms of the head lease and sub-lease match payment streams and other financial conditions. Effectively, Airbus or ATR act as credit enhancers for the transaction, as if they were providing a rental guarantee to the head lessor on behalf of the sub-lessee. Such commitments by Airbus or ATR are reported as off-balance sheet contingent liabilities.

If the present value of an AVG is below the 10% threshold, the transaction concerned by the AVG is not recorded on the consolidated balance sheet, but accounted for as a sale. AVGs are generally not expected to be exercised at an additional cost to Airbus or ATR. Furthermore, to reduce exposure under AVGs and to minimise the likelihood of their occurrence, Airbus and ATR extend them with prudent guaranteed asset values and restrictive exercise conditions, including limited exercise window periods.

Exposure arising from sales financing activities

EADS classifies the risks arising from its sales financing activities into two categories: (i) Financing Exposure, where the customer's credit – its ability to perform its obligations under a financing agreement – constitutes the risk; and (ii) Asset Value Exposure, where the risk relates to decreases in the future value of the financed aircraft.

Gross exposure. Gross Financing Exposure is computed as the sum of (i) the net book value of aircraft under operating leases; (ii) the outstanding principal amount of finance leases or loans; (iii) the maximum commitment amounts under financial guarantees; and (iv) until 31st December 2002, stipulated loss values associated with lease in/lease out structures (agreed amounts to be paid in the case of early termination of tax enhanced leases).

Gross Financing Exposure from operating leases, financial leases and loans differs from the value of related assets on EADS' balance sheet and related off-balance sheet contingent commitments for the following reasons: (i) assets are recorded in compliance with IFRS, but may relate to transactions where there is limited recourse to Airbus or ATR; (ii) the value of the assets is written down or depreciated on the consolidated balance sheet; (iii) the off-balance sheet gross exposure is calculated as the net present value of future payments, whereas the Financial Statements present the total future payments in nominal terms; and (iv) exposure related to AVGs recorded as operating leases in the Financial Statements is categorised under Asset Value Exposure, not Financing Exposure.

Gross Asset Value Exposure is computed as the sum of the maximum committed amounts under AVGs and buy-back commitments.

Net exposure. Net exposure is the difference between gross exposure and the estimated value of the collateral security.

Collateral value is assessed using a dynamic model based on the net present value of expected future rentals from the aircraft in the leasing market and potential cost of default. This valuation model yields results that are typically lower than residual value estimates by independent sources in order to allow for what Management believes is its conservative assessment of market conditions.

Under its provisioning policy for sales financing risk, EADS records provisions to fully cover its financing and asset value net exposure. Provisions pertaining to sales financing exposure, whether on-balance sheet or off-balance sheet, are recorded in provisions, or as write down of the related assets. Provisions recorded as liabilities within provisions relate primarily to off-balance sheet commitments and to AVG exposure. See "Notes to the Consolidated Financial Statements – Note 18c: Other provisions". Provisions are recorded as write downs of the related assets when they can be directly related to the corresponding asset. See "Notes to the Consolidated Financial Statements – Note 11: Property, plant and equipment; and Note 12: Investments and long-term financial assets".

Airbus sales financing exposure

Airbus financing exposure. Certain EADS and BAE Systems group companies retain joint and several liability for sales financing exposure incurred by Airbus prior to the formation of Airbus S.A.S. EADS' exposure to liabilities incurred by Airbus following 1st January 2001, is limited by its status as a shareholder in Airbus S.A.S., of which it owns 80% of the shares.

Airbus Financing Exposure as of 31st December 2002 is spread over approximately 150 aircraft, operated at any time by approximately 40 airlines; the breakdown by aircraft type is balanced between A300/310, A320 family and A330/340. In addition, other aircraft related assets, such as spare parts, may also serve as collateral security. 75% of Airbus Financing Exposure is distributed over 8 airlines in 7 countries.

Airbus has reduced gross Financing Exposure by 32% from its 1998 peak of US$6 billion, to US$4.1 billion (€3.9 billion) as of 31st December 2002, while the Airbus fleet in operation has increased 64% from 1,838 aircraft to 3,010 over the same period. Management believes the current level of gross Financing Exposure enhances Airbus' ability to assist its customers in the context of a tight aircraft financing market.

As of 31st December 2002 and 2001, net Airbus Financing Exposure, which does not include AVGs, was computed as follows:

in €m	2002	2001
Gross financing exposure – unadjusted	**3,904**	**4,020**
Adjustments	(323)	(515)
Financing exposure – adjusted	3,581	3,505
On-balance sheet	2,690	2,269
Off-balance sheet	891	1,236
Estimated collateral value	(2,061)	(1,988)
Net exposure before provision	**1,520**	**1,517**
Provision/write-Down for customer financing	(1,520)	(1,517)
Residual net exposure	**0.0**	**0.0**

On a constant US Dollar basis, the currency in which Airbus records its customer financing exposure, Airbus Gross Financing Exposure increased by approximately €600 million.

Prior to 1st January 2003, gross financing exposure with respect to lease in/lease out structures was measured by reference to the related stipulated loss value. Eliminations primarily included a correction of gross financing exposure to reflect the continuation of lease in/lease out structures through maturity (i.e. the difference between the stipulated loss value and the net present value of the future payments owed to the head lessor). From 1st January 2003, this correction will no longer be made, as the gross financing exposure from such structures will be measured as the net present value of the future payments owed to the head lessor.

The €2.7 billion of on-balance sheet customer financing exposure shown in the table above differs from the €2.4 billion book value of corresponding assets on EADS' balance sheet. This difference is the result of (i) the consolidation of assets in compliance with IFRS where there is no recourse to Airbus (€0.6 billion) and (ii) the depreciation and write down of the related assets (€0.9 billion). See "Notes to the Audited Consolidated Financial Statements – Note 11: Property, plant and equipment; and Note 12: Investments and long-term financial assets" for a description of customer financing assets book value, including Airbus (€2.4 billion) and 50% ATR (€0.4 billion).

The amount of off-balance sheet customer financing exposure shown above primarily reflects the net present value of lease in/lease out structures, net of defeased bank deposits. The corresponding cumulative nominal value of future payments corresponding to off-balance sheet exposure is €1,452 million; a corresponding provision of €617 million exists in EADS' balance sheet. See "Notes to the Consolidated Financial Statements – Note 24: Commitments and Contingencies". The year-to-year decrease in off-balance sheet exposure is primarily due to the impact of the weakening US Dollar on the Euro amount of such exposure.

Airbus asset value exposure. A significant portion of Airbus' asset value exposure arises from outstanding AVGs. Airbus' management considers the financial risks associated with such guarantees to be manageable. Three factors contribute to this assessment: (i) the guarantee only covers a tranche of the estimated future value of the aircraft, and its level is considered prudent in comparison to the estimated future value of each aircraft; (ii) the AVG-related exposure is diversified over a large number of aircraft and customers; and (iii) the exercise dates of outstanding AVGs are distributed through 2017, resulting in low levels of exposure maturing in any year. For instance, for each of the years 2003 to 2007, the average annual gross Asset Value Exposure from AVGs is approximately €280 million reflecting the peak of AVG exercise date in 2007. On a year-to-year basis, gross Asset Value Exposure, denominated in US Dollars, was nearly unchanged in 2002 from 2001. The outstanding net exposure from AVGs at year-end 2002 of €526 million is fully provided for through provisions on the balance sheet, resulting in a residual net exposure of zero. See "Notes to the Consolidated Financial Statements – Note 18c: Other provisions".

Because exercise dates for AVGs are on average in the 10th year following aircraft delivery, AVGs issued in 2003 will generally not be exercisable prior to 2013, and, therefore, an increase in near-term exposure is not expected.

ATR sales financing exposure

EADS proportionally consolidates only 50% of ATR and shares the risk with its partner, Alenia. ATR customer exposure as of 31st December 2002 is distributed over 257 aircraft, 60 airlines and 35 countries.

ATR 100% has reduced gross exposure by approximately 28% from a peak of US$1.8 billion in 1997 to under US$1.3 billion as of 31st December 2002, despite a challenging market for turboprop aircraft.

As of 31st December 2002 and 2001, ATR net customer financing exposure is computed as follows:

	ATR 50%	
in €m	2002	2001
Financing gross exposure	**610**	**828**
On-balance sheet	454	654
Off-balance sheet	156	174
Estimated collateral value	(538)	(710)
Net exposure before provision	**72**	**118**
Provision	(72)	(118)
Residual net exposure	**0.0**	**0.0**

Backstop commitments. While commitments to provide financing related to orders on Airbus' and ATR's backlog are also given, such commitments are not considered to be part of gross exposure until the financing is in place, which occurs when the aircraft is delivered. This is due to the fact that (i) past experience suggests it is unlikely that all such proposed financings actually will be implemented, (ii) until the aircraft is delivered, Airbus or ATR retain the asset and do not incur an unusual risk in relation thereto, and (iii) third parties may participate in the financing. In order to mitigate Airbus and ATR exposure to unacceptable credits, such commitments typically contain financial conditions that guaranteed parties must satisfy in order to benefit therefrom. See "Notes to the Consolidated Financial Statements – Note 24: Commitments and contingencies".

3.4 Cash management policy

Cash pooling and cash management

In 2002, the technical and legal framework of a fully automated cross-border cash pooling system (covering France, Germany, Spain and the UK) was finalised. A Group-wide implementation of this system is expected by the end of 2003. The cash pooling system enhances Management's ability to assess reliably and instantaneously the cash position of each subsidiary within the Group and enables Management to allocate cash optimally within the Group depending upon shifting short-term needs.

A cash management procedure designed to provide Management with a monthly updated perspective on cash generation and cash consumption for each subsidiary over the following twelve-month period, which was implemented on a trial basis in 2001, is now fully operational.

Funding

EADS continues to benefit from a strong cash position. In 2002, a syndicated back-up facility of €2.85 billion was put into place and a €700 million credit line with the European Investment Bank was established. These facilities remain undrawn as of 31st March 2003. In February 2003, EADS launched a €3 billion Euro Medium Term Note Programme, with a subsequent initial €1 billion issue of a seven year 4.625% Eurobond. The objectives of this initial issue are to refinance existing debt and to lengthen the maturity profile of the Company's debt. Management believes that the establishment of such financing schemes will enhance its overall presence and standing in the capital markets and increase its flexibility in responding to fluctuating funding requirements.

4 *Operating results*

4.1 Consolidated income statements

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

in €m (except for EPS)	Year ended 31st December 2002	2001
Revenues	29,901	30,798
Cost of sales	(24,465)	(25,440)
Gross margin	**5,436**	**5,358**
Selling and administrative expenses	(2,251)	(2,186)
Research and development expenses	(2,096)	(1,841)
Other income	248	3,024
Other expense	(241)	(375)
Amortisation of goodwill and related impairment losses	(936)	(1,466)
Income before financial income and income taxes	160	2,514
Income (loss) from investments	**87**	**(342)**
Interest income (expense)	(81)	63
Other financial result	21	(234)
Income (loss) before income taxes	**187**	**2,001**
Income taxes	(453)	(646)
Minority interests	(33)	17
Net income (loss)	**(299)**	**1,372**
Earnings per share (in €)	**(0.37)**	**1.70**

Use of EBIT pre-goodwill amortisation and exceptionals

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 formation of Airbus S.A.S. and the formation of MBDA, and impairment losses. It does not correspond to the definition of extraordinary items under IFRS.

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

in €m	Year ended 31st December 2002	2001
Income before financial income and income taxes	160	2,514
Income from investments	87	(342)
Dilution gain Airbus, MBDA	0	(2,794)
Goodwill amortisation and impairment losses	936	1,466
Exceptional depreciation (fixed assets)	227	260
Exceptional depreciation (financial assets)	0	315
Exceptional depreciation (inventories)	16	275
EBIT pre-goodwill amortisation and exceptionals	**1,426**	**1,694**

4.2 Segment information

Set forth below is a breakdown of EADS' consolidated revenues and consolidated EBIT pre-goodwill amortisation and exceptionals by Division for the past two years.

	Year ended 31st December 2002		Year ended 31st December 2001	
in €m	Revenues	EBIT PGE[1]	Revenues	EBIT PGE[1]
Airbus	19,512	1,361	20,549	1,655
Military Transport Aircraft	524	(80)	547	1
Aeronautics	5,304	261	5,065	308
Defence and Civil Systems	3,306	40	3,345	(79)
Space	2,216	(268)	2,439	(222)
Subtotal	**30,862**	**1,314**	**31,945**	**1,663**
HQ/consolidation[2]	(961)	112	(1,147)	31
EADS	**29,901**	**1,426**	**30,798**	**1,694**

[1] **"EBIT PGE"** refers to EBIT pre-goodwill amortisation and exceptionals.
[2] With respect to revenues, HQ/consolidation includes, in particular, adjustments and eliminations for intercompany transactions and revenues from leases of office space. With respect to EBIT PGE, HQ/consolidation primarily includes results from headquarters, which mainly includes income from the investment in Dassault Aviation.

Consolidated EBIT PGE for EADS reached €1,426 million in 2002, a decrease of €268 million from 2001. The restructuring efforts in the defence business contributed to positive results of €40 million at the DCS Division, as compared to losses of €79 million in 2001. In addition to the turnaround at the DCS Division, EADS headquarters, after downsizing the workforce by approximately 50%, achieved substantial cost savings in 2002, thus boosting its 2002 EBIT PGE.

Offsetting these positive items were effects stemming from the difficulties facing EADS' commercial markets. Following the insolvency of Fairchild Dornier in 2002, the MTA Division wrote off €54 million of assets relating to the Fairchild Dornier 728 programme of which it was a risk sharing partner.

The Space Division reported steeper losses than in 2001, amounting to €268 million in 2002. These losses related primarily to further restructuring at Astrium, the continued impact of a market downturn in commercial telecommunications (including the cancellation of one satellite), programme cost overruns and further investment depreciations.

Airbus and the Aeronautics Division suffered from the weakening passenger traffic and its resulting downturn in world commercial aircraft deliveries; higher research and development costs for the A380 and reduced deliveries of aircraft have limited the profitability of Airbus in 2002. However, further cost reductions and built in production rate flexibility partially offset these factors and have allowed Airbus to achieve EBIT PGE in 2002 of €1,361 million, a decrease of €294 million from 2001. Before taking into account R&D expenses of Airbus, the pre-R&D margin rate for EBIT PGE increased from 15% in 2001 to 15.6% in 2002. EBIT PGE at the Aeronautics Division decreased slightly from €308 million in 2001 to €261 million in 2002. This decrease was mostly attributable to higher R&D, selling, marketing and functional costs in the military aircraft business, and reduced aerostructure/maintenance activity as a result of the downturn in the commercial industry.

Restructuring. Since its formation in 2000, EADS has implemented, and continues to implement, a number of restructuring plans to further enhance its competitive position in the challenging markets in which it operates. Total restructuring charges of €161 million were recorded in the 2002 consolidated income statement. This included new provisions and current year charges primarily related to (i) headcount reductions, budgetary constraints and Ariane V issues at the Space Division (€105 million); (ii) headcount reductions and early retirements at the DCS Division (€31 million); and (iii) other restructuring provisions relating to headquarters and the Aeronautics Division.

The related restructuring burden is shown both as a provision and as other liabilities.

Cost savings derived from synergies. By the end of 2002, Management estimates that it had realised more than €400 million of its targeted recurring cost savings derived from synergies related to business activities such as procurement, aerostructure and headquarters. EADS is currently implementing measures to generate a further €200 million in targeted recurring cost savings from 2004 onwards. The merger integration team, set up at the time of the creation of EADS to derive and monitor such cost savings, was dismantled in 2002 as its responsibilities were transferred directly to the respective business units, with a centralised reporting function retained at headquarters.

4.3 EADS results of operations – 2002 to 2001 comparison

Year-to-year comparisons of results of operations are based upon the Financial Statements.

Consolidated revenues

Consolidated revenues for EADS in 2002 reached €29,901 million, a slight decrease of 3% from €30,798 million in 2001.

• **Airbus.** Airbus consolidated revenues reached €19.5 billion in 2002, a decrease of €1,037 million from 2001. This decrease was attributed mostly to the reduction in aircraft deliveries from 325 in 2001 to 303 in 2002, as well as to the weaker US Dollar. As in 2001, most of the deliveries were for single-aisle A319/A320/A321 aircraft. Airbus delivered 236 units of this type of aircraft in 2002, compared with 257 in 2001. The changing Euro/US Dollar exchange rate also impacted Airbus consolidated revenues over the periods compared (average spot rate of Euro/US Dollar 0.95 in 2002 compared to Euro/Dollar 0.90 in 2001). At a constant exchange rate from 2001, Airbus revenues would have decreased by only 2.5%. For a discussion of the impact of exchange rate variations on EADS' results of operations and EADS' hedging policy, see "Accounting Considerations – IAS 39 – Currency Hedge Accounting" and "Policies – Exchange Rate Management Policy".

• **Military Transport Aircraft.** Consolidated revenues of the Military Transport Aircraft Division were €524 million in 2002, a €23 million decrease from 2001 consolidated revenues of €547 million. While deliveries of the CN-235 in 2002 increased to 8 units from 4 in 2001 (plus 2 C-212 aircraft), delays on the A310 VIP programme and lower sales of its C-295 SAF aircraft in 2002 offset these gains.

• **Aeronautics.** Consolidated revenues of the Aeronautics Division increased 5% to €5.3 billion in 2002 from €5.1 billion in 2001. The increase primarily reflects Eurocopter's increased level of helicopter deliveries in 2002 (397 compared to 335 in 2001) and customer support services. This increase was partially offset by the impact of commercial airline industry difficulties on the Division's aerostructure businesses.

• **Defence and Civil Systems.** The Defence and Civil Systems Division generated consolidated revenues of €3.3 billion in 2002, relatively unchanged from 2001. The slight decrease primarily reflects the decrease in the participation in AMM following the MBDA transaction at the end of 2001 offset by (i) the full-year consolidation of Cogent in 2002 and (ii) an approximate 10% revenue growth across all business units except MBDA. See "Accounting Considerations – Changes in Consolidation Perimeter".

• **Space.** Space Division consolidated revenues decreased 9% to €2.2 billion in 2002 from €2.4 billion in 2001. The decrease is principally related to (i) difficulties with Astrium's civil telecommunications programmes and (ii) slower than anticipated ramp-up of the Ariane V programme at EADS Launch Vehicles.

Consolidated cost of sales

Consolidated cost of sales decreased 4% from €25,440 million in 2001 to €24,465 million in 2002. This change mainly reflects the reduction of deliveries at Airbus as well as the significant decrease in depreciation of the fair value adjustments to inventories stemming from the formation of EADS (€275 million in 2001 compared to €16 million in 2002). See "Accounting Considerations – Fair Value Adjustments".

Consolidated gross margin

In 2002, consolidated gross margin increased by €78 million to €5,436 million from €5,358 million in 2001. Without the effects of the exceptional fair value depreciation of inventories and fixed assets in 2001, consolidated gross margin would have decreased by €214 million from 2001, in line with the 2002 revenues decrease. On a percentage basis, before fair value depreciation, the consolidated gross margin percentage remained unchanged from 2001 at 19%. This is in line with the ongoing efforts to reduce costs and to counteract the impact of demand changes with implemented flexibility in manufacturing.

Consolidated selling and administrative expenses

Consolidated selling and administrative expenses increased slightly from €2,186 million in 2001 to €2,251 million in 2002. This increase was principally due to increases in staffing and higher insurance premiums at Airbus and the Aeronautics Division. However, ongoing effects from restructuring of general and administrative activities, such as the realised cost reductions at headquarters offset these increases.

Consolidated research and development expenses

EADS' consolidated research and development expenses increased 14% from €1,841 million in 2001 to €2,096 million in 2002, primarily relating to ongoing programmes at Airbus (€1.7 billion in 2002). Expenses at Airbus relating to the A380 programme reached €819 million in 2002, an increase of €435 million from 2001 levels. From 2001, total R&D expenses on the A380 programme amount to €1.3 billion. Further R&D expenses totalling €3 billion are forecasted to be incurred from 2003 through 2005. Although reduced by €130 million from 2001 levels, R&D expenses related to flight certification of the A340 500/600 programme obtained in December 2002 (€248 million in 2002), as well as further enhancements on existing programmes, also contributed to the overall R&D expenses for the year. Other than increased R&D expenses at the Aeronautics Division primarily related to the A380 programme, non-Airbus related consolidated R&D expenses remained relatively unchanged from 2001. Excluding Airbus, EADS' other Divisions incur approximately €400 million annually in consolidated R&D expenses related to ongoing businesses.

Consolidated other income and other expense

Consolidated other income and other expense principally represent gains and losses on disposals of investments and income from rental properties. In 2002, the net of other income and other expense decreased to €7 million from €2,649 million in 2001. Non-recurring dilution gains arising from the creation of Airbus S.A.S (€2,537 million) and MBDA (€257 million) were included in consolidated other income in 2001. See "Accounting Considerations – Dilution Gains". Excluding the effect of 2001 dilution gains, net other income increased by €152 million, reflecting the disposal of EADS' 50% share in Aircelle to Snecma (€63 million), the sale of MDTV to IBM, and lower expenses at headquarters in 2002.

Consolidated amortisation of goodwill and impairment tests

Consolidated amortisation of goodwill and impairment charges decreased 36% to €936 million in 2002 from €1,466 million in 2001. Excluding impairment charges, consolidated amortisation of goodwill decreased by €90 million from €676 million in 2001 to €586 million in 2002. This change is the result of the decrease in the net book value of goodwill resulting from the 2001 impairment charges. See "Accounting Considerations – Impairment of Assets". Goodwill at the Space Division was subject to a further impairment test, leading to a charge of €350 million in 2002.

	2002		2001	
in €m	Goodwill amortisation and impairment losses	Thereof impairment of goodwill	Goodwill amortisation and impairment losses	Thereof impairment of goodwill
Airbus	373	–	372	–
MTA	–	–	–	–
Aeronautics	54	–	51	–
DCS	107	–	739	580
Space	397	350	255	210
HQ	5	–	49	–
EADS	**936**	**350**	**1,466**	**790**

Consolidated income (loss) from investments

Consolidated income (loss) from investments principally includes results from companies accounted for under the equity method and the results linked to non-consolidated investments (i.e., write-downs, dividends received). In 2002, EADS recorded €87 million in consolidated investment income as compared to a €342 million consolidated loss in 2001. This change primarily reflects the €315 million impairment charge taken on civil telecommunications investments (Nortel joint ventures, carried at cost since 1st October 2001), and a €63 million write-off of commercial space investments (Nahuelsat) in 2001. As in 2001, EADS accounted for a further €29 million write-down of its investment in Arianespace in 2002. This participation now has a book value of zero.

EADS' 46% stake in Dassault Aviation, which is consolidated using the equity method, contributed €111 million of investment income in 2002 (after deduction of a related €25.6 million goodwill amortisation). Since for 2002 no financial figures are available yet from Dassault Aviation, the prior year's net income was used as a basis to report the current year's net income from this equity investment.

Consolidated interest income (expense)

Consolidated interest income (expense) reflects the net of interest income and expenses arising from financial assets or liabilities. In 2002, EADS reported a consolidated net interest expense of €81 million, as compared to €63 million of consolidated net interest income in 2001. This change is principally due to (i) higher interest charges in 2002 on European government refundable advances received (€45 million expense increase primarily related to the A380); (ii) an increasing interest rate difference between the remuneration of cash deposits and the cost of debt; and (iii) reduced average net cash position in 2002 as compared to 2001.

Consolidated other financial result

Consolidated other financial result increased to €21 million in 2002 from €(234) million in 2001. This change primarily results from a €117 million income from the mark-to-market revaluation and maturing of remaining macro hedges in 2002, as compared to a €153 million loss with respect to such macro hedges in 2001. As there are no remaining macro hedges at 1st January 2003, the mark-to-market revaluation and maturing of such hedges should no longer have an impact on consolidated other financial results.

Consolidated income taxes

See "Notes to the Consolidated Financial Statements – Note 9: Income taxes".

Consolidated net income

As a result of the factors discussed above, EADS recorded a consolidated net loss of €299 million in 2002 as compared to consolidated net income of €1,372 million in 2001.

Earnings per share (EPS)

Earnings per share decreased by €2.07 per share from €1.70 per share in 2001 to €(0.37) per share in 2002. The number of outstanding shares at the end of 31st December 2002 was 800,957,248. The denominator used in EPS was the average number of outstanding shares of 804,116,877 shares. The reduction from 2001 results from the repurchase of 10,241,252 shares offset by the issuance of 2,022,939 shares through the October 2002 employee share offering plan.

❺ *Statement of changes in consolidated shareholders' equity*

The following table sets forth a summary of the consolidated statement of changes in shareholders' equity for the period 1st January 2002 through 31st December 2002.

in €m	
Balance at 1st January 2002	**9,877**
Capital increase	16
Net loss	(299)
Dividends paid	(403)
Purchase of treasury shares	(156)
Accumulated other comprehensive income	3,730
Balance at 31st December 2002	**12,765**

Consolidated shareholders' equity increased by €2,888 million from €9,877 million as at 31st December 2001 to €12,765 million as at 31st December 2002. This increase mainly resulted from the stronger Euro/US Dollar spot exchange rates in 2002 (Euro/US Dollar 1.05) as compared with 2001 (Euro/US Dollar 0.88), which had a significant impact in accumulated other comprehensive income. This positive effect was partially offset by the consolidated net loss, the payment of dividends and the repurchase by EADS of its own shares.

Capital increase

In connection with the 2002 employee stock ownership plan, EADS issued 2,022,939 shares, raising approximately €16 million.

Dividends paid

On 17th May 2002, the general meeting of shareholders decided to pay a cash dividend related to the 2001 financial year of €0.50 per share. The dividend, totalling €403 million, was paid on 28th June 2002.

Purchase of treasury shares

In 2002, EADS purchased 10,241,252 of its own shares for a total amount of €156 million. At 31st December 2002, the number of shares outstanding was 800,957,248.

Accumulated other comprehensive income

In 2002, accumulated other comprehensive income (**"AOCI"**) increased by €3,730 million. Changes in AOCI were due to (i) the year-end mark-to-market valuation of that portion of EADS' hedge portfolio qualifying for hedge accounting under IAS 39 (€2.7 billion) and (ii) currency translation adjustments generated by the consolidation of subsidiaries not reporting their financial statements in Euro (€1 billion).

At 31st December 2002, the notional amount of the outstanding portfolio of hedges qualifying for IAS 39 hedge accounting treatment amounted to approximately US$42 billion hedged against the Euro and the Pound Sterling. The increase in the notional amount of the hedge portfolio from US$35.3 billion at 31st December 2001, is a reflection of the approval by the EADS Board of Directors to extend the hedge portfolio to 2010 to account for changes to the firm backlog in 2002, including firm orders for the A380. The year-end mark-to-market valuation of EADS' portfolio of hedges qualifying for IAS 39 hedge accounting treatment resulted in a positive valuation change of €5,224 million from 31st December 2001 based on a closing rate of Euro/US Dollar 1.05.

As a result of this positive change in the fair market valuation of the micro hedge portfolio, 2001 AOCI-related provisions of €2,405 million were reduced and AOCI-related other assets increased to €2,819 million. The corresponding €1,879 million tax effect reduced the €828 million AOCI-related deferred tax asset recorded in 2001, and increased the AOCI-related deferred tax liability to €1,051 million at 31st December 2002.

A €632 million adjustment to minority interest was recorded to reflect mainly BAE Systems' 20% share of the positive after-tax mark-to-market valuation change in hedge portfolio. As a result of this adjustment, AOCI-related minority interest was €416 million at 31st December 2002 as compared to €(216) million at 31st December 2001.

The increase to AOCI of €2,713 million at 31st December 2002 attributable to changes in the fair value of hedging instruments, represents the net mark-to-market valuation change of the EADS hedge portfolio, after accounting for deferred taxes and minority interest. See "Accounting Considerations – IAS 39 – Currency Hedge Accounting" and "Policies – Exchange Rate Management Policy".

The impact of currency translation adjustments on AOCI in 2002 amounted to positive €1,027 million, reflecting a stronger Euro spot rate versus other currencies at 31st December 2002.

6 *Movement of net cash position*

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

The following table sets forth the variation of EADS' consolidated net cash position over the periods indicated. See also "Financial Statements – Consolidated Statements of Cash Flow".

in €m	Year ended 31st December 2002	2001
Consolidated net cash position at 1st January	**1,533**	**2,143**
First consolidation Airbus UK/GIE 20%	–	(838)
Net cash at beginning of period	**1,533**	**1,305**
Gross cash flows from operations	1,862	2,654
Changes in working capital	804	2
Cash used for investing activities	(2,953)	(1,882)
Thereof industrial capital expenditures	(2,093)	(1,311)
Thereof customer financing	(865)	(93)
Thereof others	5	(478)
Free cash flows[1]	**(287)**	**774**
Thereof free Cash Flows before customer financing	578	867
Treasury share buy-back	(156)	0
Dividends paid to shareholders	(403)	(404)
Capital increase	16	21
Other changes in financial position	521	(163)
Consolidated net cash position at 31st December	**1,224**	**1,533**

[1] Does not reflect investments in available-for-sale securities (€264 million in 2002; €390 million in 2001), which are classified as cash and not as investments.

In 2002, the consolidated net cash position decreased by 20% to €1,224 million at 31st December. EADS calculates its consolidated net cash position as the difference between (i) cash, cash equivalents and securities and (ii) financial liabilities (as recorded in the consolidated balance sheet). Efforts at Airbus to limit the growth of customer financing exposure and a Company-wide focus on cash management, combined with new European government refundable advances received (primarily related to the A380 programme), sustained levels of pre-delivery payments from customers at Airbus and the positive effects of the weakening US Dollar on EADS' dollar-denominated debt portfolio were offset by substantial investments in fixed assets, the consumption of provisions for previous macro hedges reclassified as micro hedges, as well as dividend payments in 2002.

Gross cash flows from operations

In 2002, the main factor contributing to the €1.9 billion gross cash flow from operations was the expiration of some hedges bearing unfavourable US Dollar rates. This negative cash effect was offset in operating result by the consumption of provisions made on 31st December 2000, with respect to mark-to-market macro hedges which were reclassified as micro hedges using then prevailing forward rates. See "Accounting Considerations – IAS 39 – Currency Hedge Accounting". The consumption of such provisions amounted to approximately €1 billion in 2002. The remaining provision for such hedges, expected to be fully consumed over the next 2 years, is approximately €300 million. Once consumed, no further impact from such provisions on gross cash flow from operations is expected. Depreciation on fixed assets not including fair value adjustments amounted to €1.6 billion in 2002, slightly above the 2001 level of €1.5 billion.

Changes in working capital

Working capital is comprised of the sum of trade receivables, net inventory, other assets and prepaid expenses against the sum of trade liabilities, other liabilities and deferred income. Changes in working capital resulted in a €804 million positive impact on the net cash position in 2002. The main net contributors to the positive working capital were an increase in A380-related European government refundable advances, recorded in other liabilities, and a reduction of trade receivables as a result of EADS' focus on cash management. This was partly offset by higher inventory build-up of approximately €500 million in all Divisions except Airbus. As of 31st December 2002, total European government refundable advances received, recorded on the balance sheet in other liabilities, were €4.3 billion. Of this amount, €2.6 billion relate to long-range Airbus aircraft, €1.1 billion relate to the A380, and the remainder relates to other programmes. In 2002, European government refundable advances receipts totalled €980 million and European government refundable advances reimbursements totalled €250 million. Related accrued interest for 2002 of €170 million was recorded on the balance sheet in other liabilities.

In 2002, total advance payments received from customers stood at €13.7 billion, as compared to €14.7 billion at 31st December 2001. The year-to-year change primarily reflects foreign currency effects from the weakening US Dollar. At a constant US Dollar exchange rate, the level of advance payments received at year-end 2002 remained relatively unchanged from 2001. €9.5 billion of advance payments received were netted against inventories at 31st December 2002, resulting in a balance of €3.6 billion of advance payments received recorded on the balance sheet in other liabilities and €600 million in trade receivables.

Cash used for investing activities

Management categorises cash used for investing activities into three components: (i) industrial capital expenditures, (ii) customer financing and (iii) net investments in subsidiaries.

Industrial capital expenditures. Industrial capital expenditures (investments in plant, property and equipment) amounted to €2.1 billion in 2002 as compared to €1.3 billion in 2001. A380-related capital expenditure totalled €910 million in 2002, as compared to €300 million in 2001. EADS estimates a total capital expenditure for the A380 programme from 2003 onwards to be approximately €2.5 billion.The remaining portion of expenditures related to further integration measures at Airbus of €650 million (manufacturing facilities and common information technologies systems) and additional programmes in the other Divisions of €530 million. Excluding Airbus, EADS' other Divisions incur approximately €500 million annually in capital expenditures related to ongoing businesses. Investments in aircraft leases are included in customer financing, and not in industrial capital expenditures, even though the underlying assets are recorded in property, plant and equipment.

For the period 2003 to 2005, it is estimated that most of EADS' capital expenditure will occur in connection with Airbus activities, such as the ongoing establishment and expansion of production facilities for Airbus aircraft. In particular, the development programme for the A380 very large aircraft will require substantial capital expenditures.

Customer financing. Net consolidated cash flows corresponding to additions in customer financing amounted to €865 million in 2002 including a net positive impact of €29 million from ATR. The Airbus gross addition to customer financing in 2002 amounted to €1.8 billion. This increase mainly relates to new finance leases and loans. EADS sold down approximately €900 million of customer financing exposure in 2002, including €400 million of new exposure generated in 2002 primarily by loans granted to UAL. As of 31st December 2002 there are no remaining exposures relating to UAL. EADS aims to structure all financing so as to facilitate the future sell-down or reduction of its exposure.

Not included in the net additions in ATR and Airbus customer financing in 2002 are approximately €200 million of amortisation of existing exposure (primarily amortisation of operating lease aircraft). This amortisation is recorded in the line item cash flow from operations.

Net of the amount of such amortisation, the increase in customer financing is in line with the corresponding increase in gross exposure at constant US Dollar exchange rate. See "Policies – Sales Financing Policy" and "Notes to the Consolidated Financial Statements – Note 24: Commitments and Contingencies".

In response to increased demand for financing from its customers, EADS expects to make additional capital expenditures in connection with customer financing of commercial aircraft through finance leases and loans. EADS' target for additional customer financing is lower in 2003 than in 2002, and EADS intends to continue with its restrictive practice of keeping net additions at the lowest possible level. See "Policies – Sales Financing Policy".

Others. In 2001, net investments in subsidiaries were mainly influenced by the acquisitions of Tesat Spacecom, Cogent, and additional shares in Dornier of approximately €400 million. In 2002, proceeds related to the disposals of Aircelle and MDTV contributed to the positive balance of net investments in subsidiaries. See "Accounting Considerations – Changes in Consolidation Perimeter".

Free cash flows

As a result of the factors discussed above, negative free cash flows amounted to €287 million in 2002, as compared to positive €774 million in 2001. Positive free cash flows before customer financing were €578 million in 2002 as compared to €867 million in 2001.

Other changes in financial position

Other changes in financial position represent mainly foreign exchange rate valuation changes on cash and debt instruments and the movements of cash and/or financial liabilities as the result of changes in EADS' consolidation perimeter. Included in 2001 was, mainly, a negative valuation change of EADS' US Dollar-denominated debt instruments (€335 million). For 2002, the main factors affecting other changes in financial position were the positive valuation change of US Dollar-denominated debt of approximately €782 million, offset by dividends paid to minority shareholders (principally €125 million to BAE Systems in respect of Airbus) and by foreign exchange effects on cash of approximately €80 million.

7 *Consolidated financial liabilities*

The outstanding balance of financial liabilities was €4,976 million in 2002, compared to €6,500 million in 2001. The net decrease of consolidated financial liabilities of €742 million from 2001 (at a constant US Dollar exchange rate) resulted primarily from the settlement of bond obligations and the repayment of debt owed to financial institutions. An adjustment of €782 million reflected the currency translation impact of the weakening dollar on dollar denominated Financial Liabilities.

The following table sets forth the composition of EADS' consolidated financial liabilities, including both short- and long-term debt, as of 31st December 2002 and 2001:

	Principal amount outstanding	
in €m	2002	2001
Finance lease	1,566	1,746
Bonds	253	621
Liabilities to financial institutions	1,569	1,827
Loans	1,048	1,754
Others	540	552
Total financial liabilities	**4,976**	**6,500**

Total financial liabilities include the full consolidation of Airbus financial debt for an amount of €4,162 million. However, EADS is liable for only 80% of such financial debt incurred after 1st January 2001, in line with its stake in Airbus. See "Policies – Sales Financing Policy – Airbus Sales Financing Exposure".

EADS' €4,976 million of total consolidated financial liabilities mature according to the following schedule:

in €m	2003	2004	2005	2006	2007	Thereafter
	1,185	193	325	393	715	2,165

EADS records cash pooled with itself which belongs to joint venture partners and non-consolidated entities as a short-term liability. As long as cash pooling agreements are in place, such cash is intended to remain in EADS custody and does not fall due for immediate reimbursement. In 2003, the maturity profile includes €540 million of such recurring short-term liabilities, primarily related to MBDA and Astrium.

More than 75% of the €4,976 million of total financial liabilities as at 31st December 2002, are derived from the funding of EADS' sales financing assets, which are of a long-term nature and have predictable payment schedules. The following table presents a breakdown of consolidated financial liabilities related to sales financing:

	Principal amount outstanding	
in €m	2002	2001
Finance lease	1,566	1,746
Liabilities to financial institutions	1,266	1,425
Loans	958	1,526
Total sales financing liabilities	**3,790**	**4,697**

Of the €3,790 million total sales financing liabilities, €747 million is in the form of limited recourse debt, where EADS' repayment obligations are limited to its receipts from transaction counterparties and €1,146 million are secured through defeased bank deposits which are included on the balance sheet as financial assets. Additionally, a significant portion of financial assets representing non-cancellable customer commitments have terms closely matching those of the related financial liabilities. Lease and sales financing commitments are typically supported by underlying aircraft used as collateral. See "Notes to the Consolidated Financial Statements – Note 24: Commitments and contingencies".

Management believes that the maturity profile of the consolidated financial liabilities is prudent and consistent with the structure of EADS' consolidated assets and cash flows.

8 *Cash and cash equivalents*

At 31st December 2002, the outstanding balance of cash and cash equivalents was €6,200 million (including €4,497 million in securities), as compared to €8,033 million (including €5,341 million in securities) at 31st December 2001.

Total cash and cash equivalents includes the full consolidation of cash at Airbus in an amount of €1,612 million. However, EADS' stake therein is only 80%. Similarly, EADS has only a 37.5% stake in the €1,332 million of MBDA cash included from the 50% consolidation.

Consolidated income statements for the years 2002 and 2001

in €m	Note	2002	2001
Revenues	5, 26	29,901	30,798
Cost of sales	6	(24,465)	(25,440)
Gross margin		**5,436**	**5,358**
Selling, administrative and other expenses	6	(2,492)	(2,561)
Research and development expenses		(2,096)	(1,841)
Other income	7	248	3,024
Amortisation of goodwill and related impairment losses	10	(936)	(1,466)
Income before financial result, income taxes and minority interests		**160**	**2,514**
Income (loss) from investments		87	(342)
thereof income from associates		108	22
Interest income (expense), net		(81)	63
Other financial result		21	(234)
Financial result	8	27	(513)
Profit (loss) before income taxes and minority interests		**187**	**2,001**
Income taxes	9	(453)	(646)
Minority interests		(33)	17
Net income (loss)		**(299)**	**1,372**
Earnings per share			
Basic and diluted	31	€(0.37)	€1.70
Dividends per share (2002: proposal)	17	**€0.30**	**€0.50**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated balance sheets as at 31st December 2002 and 2001

in €m	Note	2002	2001
Assets			
Intangible assets	10	9,789	10,588
Property, plant and equipment	11	10,509	10,050
Investments in associates	12	1,333	1,252
Other investments and long-term financial assets	12	3,542	3,474
Fixed assets		**25,173**	**25,364**
Inventories	13	2,700	2,469
Trade receivables	14	4,114	5,183
Other receivables and other assets	15	5,256	2,633
Securities	16	4,497	5,341
Cash and cash equivalents		1,703	2,692
Non-fixed assets		**18,270**	**18,318**
Deferred taxes	9	**2,992**	**4,288**
Prepaid expenses		**965**	**745**
Total assets		**47,400**	**48,715**
Liabilities and shareholders' equity			
Capital stock		811	809
Reserves		9,658	10,346
Accumulated other comprehensive income		2,452	(1,278)
Purchase of treasury shares		(156)	0
Shareholders' equity	17	**12,765**	**9,877**
Minority interests		**1,361**	**559**
Provisions	18	**8,248**	**11,918**
Financial liabilities	19	4,976	6,500
Trade liabilities	20	5,070	5,466
Other liabilities	20	10,246	10,631
Liabilities		**20,292**	**22,597**
Deferred taxes	9	**2,014**	**806**
Deferred income	21	**2,720**	**2,958**
Total liabilities and equity		**47,400**	**48,715**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows for the years 2002 and 2001

in €m	2002	2001
Net income (loss)	(299)	1,372
Income applicable to minority interests	33	(17)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and Amortisation of fixed assets	2,768	3,560
Valuation adjustments	177	493
Dilution gain Airbus/MBDA	0	(2,817)
Change in deferred taxes	255	109
Results on disposal of fixed assets/businesses and result of associates (equity method)	(227)	(93)
Change in provisions	(845)	47
Change in other operating assets and liabilities:	**804**	**2**
– Inventories, net	274	(655)
– Trade receivables	895	(894)
– Trade liabilities	(139)	766
– Other assets and liabilities	(226)	785
Cash provided by operating activities	**2,666**	**2,656**
Investments:		
– Purchases of fixed assets and increase in equipment of leased assets	(2,314)	(2,196)
– Payments for investments in financial assets and acquisitions of subsidiaries	(1,134)	(1,096)
– Proceeds from disposal of fixed assets and decrease in equipment of leased assets	240	402
– Proceeds from disposal of financial assets and subsidiaries	849	850
– Change in finance lease receivables	(599)	138
Change in securities	(264)	(390)
Cash from changes in consolidation	5	20
Cash used for investing activities	**(3,217)**	**(2,272)**
Change in financial liabilities	(774)	(465)
Cash contribution by minority interests	0	253
Dividends paid	(403)	(404)
Repayments/dividends to minorities	(127)	(52)
Capital increase	16	21
Purchase of treasury shares	(156)	0
Others	(3)	(30)
Cash used for (provided by) financing activities	**(1,447)**	**(677)**
Effect of foreign exchange rate changes on cash and cash equivalents	(82)	14
Net increase (decrease) in cash and cash equivalents	**(2,080)**	**(279)**
Cash and cash equivalents		
Cash at beginning of period	**7,481**	**7,760**
Cash at end of period	**5,401**	**7,481**
Additional securities medium-term	**799**	**552**
Cash and securities as stated in Balance Sheet	**6,200**	**8,033**
The following represents supplemental information with respect to cash flows from operating activities:		
Interest paid	(407)	(335)
Income taxes paid	(318)	(520)

Interest received for 2002 amounts to €403 million (2001: €506 million), dividends received amount to €19 million (2001: €36 million).
The accompanying notes are an integral part of these consolidated financial statements.
For details, see Note 22, "Consolidated cash-flow statement"

Consolidated statements of changes in shareholders' equity for the years 2002 and 2001

in €m	Note	Capital stock	Reserves	Accumulated other comprehensive income	Treasury shares	Total
Balance at 31st December 2000		**807**	**9,359**	**84**		**10,250**
First application of IAS 39				(337)		(337)
Balance at 1st January 2001, adjusted		**807**	**9,359**	**(253)**		**9,913**
Capital increase ESOP		2	19			21
Net profit			1,372			1,372
Dividend			(404)			(404)
Other comprehensive income				(1,025)		(1,025)
thereof changes in fair values of securities				(10)		
thereof changes in fair values of hedging instruments				(878)		
thereof currency translation adjustment				(137)		
Balance at 31st December 2001/1st January 2002		**809**	**10,346**	**(1,278)**		**9,877**
Capital increase ESOP	17, 27	2	14			16
Net loss	26		(299)			(299)
Dividend	17		(403)			(403)
Purchase of treasury shares	17				(156)	(156)
Other comprehensive income				3,730		3,730
thereof changes in fair values of securities				(10)		
thereof changes in fair values of hedging instruments				2,713		
thereof currency translation adjustment				1,027		
Balance at 31st December 2002		**811**	**9,658**	**2,452**	**(156)**	**12,765**

The accompanying notes are an integral part of these consolidated financial statements.

Basis of presentation

Contents for the Notes to the consolidated financial statements

1 The company

The accompanying consolidated financial statements present the operations of **European Aeronautic Defence and Space Company EADS N.V.** and its subsidiaries ("EADS" or the "Group"), a Dutch public limited liability company (naamloze vennootschap) legally seated in Amsterdam (Le Carré, Beechavenue 130 – 132, 1119 PR, Schiphol-Rijk, The Netherlands). EADS' core business is the manufacturing of commercial aircraft, civil helicopters, commercial space launch vehicles, missiles, military aircraft, satellites and defence electronics and rendering of services related to these activities. The consolidated financial statements were authorised for issue by EADS' Board of Directors on 7th March 2003 and are prepared and reported in euros ("€").

2 Summary of significant accounting policies

Basis of preparation – The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), the accounting standards and interpretations approved by the International Accounting Standards Board ("IASB"), except that the Group expenses all development costs as incurred. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial instruments, financial assets and financial liabilities classified as held-for-trading, and hedged items in fair value hedges.

Consolidation – The consolidated financial statements include the subsidiaries under the control of EADS. Investments in which EADS has significant influence ("associated companies") are accounted for using the equity method. For investments in material joint ventures, EADS uses the proportionate method of consolidation. The effects of intercompany transactions are eliminated.

Business combinations are 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.

Foreign currency translation – The assets and liabilities of foreign entities, where the local currency is other than Euro, are translated using period-end exchange rates, while the statements of income are translated using average exchange rates during the period. All resulting translation differences are included as a separate component of shareholders' equity ("Accumulated other comprehensive income" or "AOCI").

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 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquiring company and are recorded at the exchange rate at the date of the transaction.

Revenue recognition – Revenue from the sale of goods is recognised upon the transfer of risks and rewards of ownership to the buyer and when the amount of revenue can be measured reliably. Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the balance sheet date. For construction contracts, when the outcome can be estimated reliably, revenue is recognised by reference to the stage of completion of the contract activity. The stage of completion of a contract may be determined by a variety of ways. Depending on the nature of the contract, revenue is recognised as contractually agreed-upon milestones are reached, the work progresses or units are delivered. 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.

Sales of aircraft that include asset 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.

Product-related expenses – Expenses for advertising and sales promotion and other sales-related expenses are charged to expense as incurred. Provisions for estimated warranty costs are recorded at the time the related sale is recorded. Penalties are charged to expense in the period it becomes probable that the Group will be subject to the penalties.

Research and Development expenses – Contrary to International Accounting Standard (IAS) 38, Intangible Assets, which requires development costs to be capitalised if certain conditions are met, the Group expenses all internally funded development activities as incurred. While the effects of such departure are not reasonably determinable, EADS believes that it better reflects the true and fair view of the Group's global operations. Research and development activities carried out in the scope of externally financed research and development contracts are expensed when the related revenues are recorded.

Income taxes – Deferred tax assets and liabilities reflect lower or higher future tax consequences that result for certain assets and liabilities from temporary valuation differences between the financial statement carrying amounts and their respective 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 the new rates are enacted. 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. Borrowing costs are not capitalised. The following useful lives are assumed: buildings 6 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 generally depreciated using the straight-line method over 5 years or, if more appropriate, using the number of production or similar units expected to be obtained from the tools (sum-of-the-units method). Especially for aircraft production programmes such as the Airbus A380 with an estimated number of aircraft to be produced using such tools, the sum-of-the-units method effectively allocates the diminution of value of specialised tools to the units produced.

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. The fair value of investment property is reviewed annually by using cash-flow models or by determinations of open market prices.

Non-current available-for-sale financial assets – Non-current available-for-sale financial assets are included in the line **investments and long-term financial assets** in the consolidated balance sheet and are accounted for at fair value. Unrealised gains and losses on available-for-sale investments are recognised directly as part of a separate component of shareholders' equity ("AOCI"), net of applicable deferred income taxes. As soon as such investments are sold or otherwise disposed of, or are determined to be impaired, the cumulative gain or loss previously recognised in equity is included in "Financial result" in the consolidated income statement for the period. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably estimated by alternative valuation methods are measured at cost, less any accumulated impairment losses. The fair values of investments are based on quoted market or bid prices or amounts derived from cash-flow models.

Impairment of assets – The Group reviews property, plant and equipment and other non-current assets, including goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and where the carrying amount exceeds the recoverable amount, the respective asset or cash-generating unit is written down to its recoverable amount.

Leasing – The Group is a lessor and a lessee of assets, primarily in connection with commercial aircraft sales financing. Lease transactions where substantially all risks and rewards incident to ownership are transferred from the lessor to the lessee are accounted for as finance leases. All other leases are accounted for as operating leases.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less depreciation (see Note 11, "Property, plant and equipment"). Rental income from aircraft operating leases is recorded as revenue over the term of the lease. Assets leased out under finance leases cease to be recognised in the balance sheet after the inception of the lease. Instead, a finance lease payments receivable representing the discounted future lease payments to be received from the lessee plus any discounted unguaranteed residual value is recorded as long-term financial assets (see Note 12, "Investments and long-term financial assets"). Unearned finance income is recorded over time in "Financial result". Revenues and the related cost of sales are recognised at the inception of the finance lease.

Assets obtained under finance leases are included in property, plant and equipment at cost less depreciation (see Note 11, "Property, plant and equipment"), unless such assets have been further leased out to customers. In such a case, the respective asset is either qualified as an operating lease or as a finance lease with EADS being the lessor (headlease-sublease-transaction) and is recorded accordingly. For the relating liability from finance leases see Note 19, "Financial liabilities". When EADS is the lessee under an operating lease contract, rental payments are recorded when they fall due (see Note 24, "Commitments and contingencies" for future operating lease commitments). Such leases often form part of commercial aircraft customer financing transactions with the related sublease being an operating lease (headlease-sublease-transaction).

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 measured 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. Inventory is presented in the consolidated balance sheet net of allocable advance payments received.

Securities – The Group's securities are accounted for at fair value. All of the Group's securities are classified as available-for-sale securities. Management determines the appropriate classification at the time of purchase and revaluates such determination at each balance sheet date. Unrealised gains and losses on available-for-sale securities are recognised directly within a separate component of stockholders' equity ("AOCI"), net of applicable deferred income taxes. As soon as such securities are sold or otherwise disposed of, or are determined to be impaired, the cumulative gain or loss previously recognised in equity is recorded as part of "Financial result" in the consolidated income statement for the period. Short-term securities which are subject to an insignificant risk of changes in value are treated as cash equivalents in the consolidated cash flow statement. The fair value of available-for-sale securities is determined using quoted market prices. If a quoted market price is not available, fair value is determined on the basis of generally accepted valuation methods on the basis of market information available at the reporting date. All purchases and sales of securities are recognised on settlement date according to market conventions.

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.

Derivative financial instruments – Effective 1st January 2001, EADS adopted International Accounting Standard (IAS) 39, Financial Instruments: *Recognition and Measurement*, which requires all derivative financial instruments be recognised in the financial statements. Derivative financial instruments are initially recognised in the consolidated balance sheet at cost and are subsequently measured at fair value. Changes in the fair value of derivative financial instruments are recognised periodically either in income or, in the case of a cash flow hedge, within a separate component of stockholders' equity ("AOCI"), net of applicable income taxes, and subsequently recognised in the consolidated income statement as a component of the related transactions, when realised. For derivative financial instruments designated as fair value hedges, changes in the fair value of the hedged item and the derivative are recognised in the consolidated income statement. Gains and losses on derivative financial instruments, both realised and unrealised, that do not qualify for hedge accounting are included in "Net income (loss)".

EADS uses derivative financial instruments for hedging purposes. Derivative financial instruments used in micro-hedging strategies to offset the Group's exposure to identifiable transactions are accounted for together with the underlying business transactions ("hedge accounting"). The Group's criteria for classifying a derivative financial 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) for cash flow hedges, a forecasted transaction that is subject of the hedge must be highly probable, (3) the effectiveness of the hedge can be reliably measured, (4) there is adequate documentation of the hedging relationships at the inception of the hedge.

With the adoption 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. 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. In case certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39, changes in fair value of such derivative financial instruments are recognised immediately in "Net income (loss)". Derivative financial instruments with a negative fair value are recorded as "Provisions for financial instruments". Such derivative financial instruments with positive fair values are recorded in "Other receivables and other assets".

See Note 25, "Information about financial instruments" for a description of the Group's financial risk management strategies, the fair values of the Group's derivative financial instruments as well as the methods used to determine such fair values.

Provisions – 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 are updated regularly.

Provisions for financial guarantees corresponding to aircraft sales are recorded to reflect the underlying risk to the Group in respect of guarantees given when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimates can be made of the amount of the obligation. 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.

The valuation of **pension and post-retirement benefits** classified as defined benefit plans is based upon the projected unit credit method in accordance with IAS 19, "Employee Benefits". According to the corridor approach of IAS 19.92, EADS does not recognise actuarial gains and losses as income and expense unless, for each individual plan, they exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets.

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Financial liabilities – Financial liabilities are recorded initially at the proceeds received, net of transaction costs incurred. Subsequently, financial liabilities are measured at amortised cost using the effective interest rate method with any difference between proceeds (net of transaction costs) and redemption amount being recognised in "Financial result" over the period of the financial liability.

Refundable advances – Refundable advances from European Governments are provided to the Group to finance research and development activities for certain projects on a risk-sharing basis, i.e. they have to be repaid to the European Governments according to the success of the project. Because of their risk-sharing basis, such refundable advances are recorded as "Other Liabilities".

Equity compensation plans – Currently, there is no IFRS covering recognition and measurement requirements for equity compensation plans (that is, stock, stock options, or other awards). EADS classifies equity compensation plans as either compensatory plans or non-compensatory plans. If a plan qualifies as a non-compensatory plan, no compensation expense is recorded. On the other hand, a compensatory plan may result in recognition of compensation expense. Upon adoption of a new plan, the Group determines whether the plan is compensatory or non-compensatory. EADS recognises all employee stock ownership plans to be non-compensatory if, at grant date, the granted discount does not exceed 15% of the market share price, and the plan covers virtually all of the Group's employees.

Compensation cost for compensatory equity compensation plans is measured on the measurement date, which is the date on which both the number of shares and the exercise price are first known, using the intrinsic-value-based method of accounting. If the terms of the plan or award are such that the number of shares and exercise price are set on the grant date, fixed-plan accounting applies. If, on the other hand, the number of shares, the exercise price, or both are not "fixed" on the grant date, variable-plan accounting applies.

Fixed-plan accounting prescribes calculating compensation cost on the grant date. When the share price at grant date is exceeding the granted exercise price, compensation has to be recognised as compensation expense over the vesting period. The compensation cost that is calculated cannot be adjusted (assuming that future events do not trigger the need to subsequently apply variable-plan accounting or to re-measure compensation cost) for future changes in the stock-based compensation award's intrinsic value. On the other hand, variable-plan accounting requires a continual recalculation of compensation cost until both the number of shares and the exercise price are known (i.e., until there has been a measurement date).

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.

Reclassification – The presentation of certain prior year information has been reclassified to conform to the current year presentation.

3 Scope of consolidation

Perimeter of consolidation (31st December 2002) – The consolidated financial statements include, in addition to EADS N.V.:

- 216 companies which are fully consolidated (2001: 206),
- 34 companies which are proportionately consolidated (2001: 33),
- 16 companies, which are investments in associates and are accounted for using the equity method (2001: 17).

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

4 Acquisitions and disposals

a) Acquisitions

In 2002, no material acquisitions occurred.

Following the creation of MBDA on 18th December 2001, and the acquisitions of Tesat-Spacecom on 30th November 2001, and Cogent on 1st December 2001, the financial statements 2002 include for the first time one year of income statements for these entities.

b) Disposals

On 6th March 2002, Airbus sold its share in **Aircelle**, a joint venture with Snecma, to Snecma. The selling price amounted to €63 million.

On 20th November 2002, EADS sold **EADS Matradatavision** ("MDTV") to IBM. The sales agreement includes all except two subsidiaries of MDTV, which will be sold separately. The selling price amounted to €12 million.

Apart from those mentioned, other dispositions by the Group were not significant.

c) Subsequent changes in value of assets and liabilities acquired and cost of acquisition

Subsequent to the creation of MBDA and the acquisitions of Tesat and Cogent, all in 2001, it became evident in 2002 that previous estimates of assets and liabilities regarding these three transactions had to be adjusted. Further to this, subsequent to the acquisition of Tesat and Cogent, the amounts of the final purchase prices were resolved in 2002. Accordingly, goodwill was increased by €73 million in 2002. The consolidated financial statements of 31st December 2001, as presented, do not reflect these adjustments.

Notes to the consolidated statements of income

5 Revenues

Revenues in 2002 reach €29,901 million compared with €30,798 million in 2001. Revenues in 2002 slightly decreased in comparison with 2001, mainly due to a lower US Dollar exchange rate compared to Euro and fewer deliveries of Airbus aircraft, partly offset by a more favourable aircraft mix and price effects.

Revenues are comprised of sales of goods and services, 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. For a breakdown of revenues by business segment and geographical region, refer to Note 26, "Segment reporting".

6 Functional costs and other expenses

Included in cost of sales and other functional costs are **Cost of materials** of €19,216 million (2001: €20,036 million).

Cost of sales comprise the amortisation charge of the remaining capitalised settlement payment to the German Government with respect to refundable advances of €99 million. Included in cost of sales of 2001 are reclassifications of €205 million of depreciation on jigs and tools which had previously been recorded as development expenses, as it results in a more appropriate presentation. The comparable figure for depreciation of jigs and tools for 2002 is €245 million.

Selling, administrative and other expenses are comprised of selling expenses (€829 million and €800 million in 2002 and 2001, respectively), administrative expenses (€1,422 million and €1,386 million in 2002 and 2001, respectively) and other expenses (€241 million and €375 million in 2002 and 2001, respectively). Other expenses include losses from sales of fixed assets (€5 million and €20 million in 2002 and 2001, respectively) and additions to other provisions (€58 million and €34 million in 2002 and 2001, respectively).

Personnel expenses are comprised of:

in €m	2002	2001
Wages, salaries and social contributions	7,147	6,606
Net periodic pension cost (see Note 18 a)	319	257
Total	**7,466**	**6,863**

7 Other income

Other income of €248 million (2001: €3,024 million) is mainly driven by the gain on the disposal of EADS' 50% share in Aircelle (€63 million) and rental income (€45 million and €33 million in 2002 and 2001, respectively). In 2001 it mainly comprised the dilution gain as a result of the Airbus UK transaction as well as a dilution gain as a result of the MBDA transaction, totalling €2,817 million.

8 Financial result

in €m	2002	2001
Income (loss) from investments	87	(342)
Interest income/(expense), net	(81)	63
Other financial result	21	(234)
Total	**27**	**(513)**

The **income from investments** in 2002 is mainly derived from the result of the equity investments in Dassault Aviation of €111 million (2001: €111 million) and the depreciation of Arianespace Participation S.A. (€(29)million). Since for 2002 no financial figures are available yet from Dassault Aviation, the prior year's net income was used as a basis to report the current year's net income from this equity investment. In 2001, the loss from investments is mainly caused by a depreciation, following an impairment test, of Nortel Networks France and Nortel Networks Germany totalling €(315)million.

Interest income/(expense), net, in 2002 comprises interest income of €526 million and interest expense of €(607)million. Included in interest income is the return on cash and cash equivalents, securities and financial assets such as loans and finance leases. Interest expense includes interest on financial liabilities and European Government refundable advances.

Other financial result in 2002 comprises fair value gains on financial instruments of €117 million. Fair value gains and losses on financial instruments result from mark-to-market revaluation of financial instruments that do not qualify for "hedge accounting" (see Note 25, "Information about financial instruments").

9 Income taxes

Income (loss) before income taxes and minority interests amounts to €187 million for the year ended 31st December 2002 (2001: €2,001 million).

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

in €m	2002	2001
Current tax expense	(198)	(549)
Deferred tax (expense)/benefit	(255)	(97)
Total	**(453)**	**(646)**

For the Group's German subsidiaries, deferred taxes are calculated using a federal corporate tax rate of 25% for 31st December 2002 and 2001, plus (i) an annual solidarity surcharge of 5.5% on the amount of federal corporate taxes payable and (ii) the after federal tax benefit rate for trade tax of 12.125% for 2002 and 2001. In aggregate, the tax rate applied to German deferred taxes amounts to 38.5% in 2002 and 2001. In September 2002, the "Flutopfersolidaritätsgesetz (flood victim solidarity act)" was enacted, leading to a 1.5% increase of federal corporate tax in Germany in 2003. Deferred tax assets which will reverse in 2003 are calculated accordingly.

In France, the corporate tax rate in effect for 2001 was $33^1/_3$ % plus a surcharge of 6%. For the year 2002, the French government established a reduced surcharge of 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% at 31st December 2002 for temporary differences (35.43% at 31st December 2001). The effects of the tax rate reduction on deferred tax assets and liabilities at 31st December 2002 and 2001, 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 34.5% at 31st December 2002 (35% at 31st December 2001) – to the reported tax expense. The reconciling items represent non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported financial statements according to IFRS rules.

in €m	2002	2001
Profit (loss) before income taxes and minority interests	187	2,001
(Corporate income tax rate)	34.5%	35%
Expected benefit (expense) for income taxes	**(65)**	**(700)**
Effect of changes in tax laws	0	(1)
Foreign tax rate differential	(35)	(4)
Dilution gains	–	936
Goodwill amortisation and impairments	(321)	(588)
Write down/ release of write down of deferred tax assets, net	(11)	(264)
Tax credit for R&D expenses	53	48
Results on associates (at equity)	28	15
Tax effect on depreciations on investments	(39)	(73)
Other	(63)	(15)
Reported tax benefit (expense)	**(453)**	**(646)**

Deferred income taxes reflect temporary valuation differences between the carrying amounts of certain assets and liabilities in the financial statements and their tax bases. Future tax impacts 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 2002	31st December 2001
Intangible assets	15	12
Inventories	341	379
Prepaid expenses	–	174
Net operating loss and tax credit carry forwards	654	613
Retirement plans	585	498
Other provisions	482	2,239
Liabilities	711	585
Deferred income	725	870
	3,513	**5,370**
Write down of deferred tax assets	(564)	(625)
Deferred tax assets (before netting)	**2,949**	**4,745**
Property, plant and equipment	932	1,046
Investments and long-term financial assets	107	81
Receivables and other current assets	900	107
Prepaid expenses	32	–
Other	–	29
Deferred tax liabilities (before netting)	**1,971**	**1,263**
Deferred tax assets, net	**978**	**3,482**

The decrease of deferred tax assets on other provisions is related to the valuation of the financial instruments according to IAS 39. In 2002 the mark-to-market of the financial instruments are mainly shown under other current assets. Accordingly, the deferred tax liabilities on receivables and other current assets increased.

At 31st December 2002, the Group records €23 million of domestic corporate tax net operating losses ("NOL"), €1,723 million foreign NOL and credit carry forwards (of which Germany: €602 million; UK: €520 million; France: €347 million; Spain: €159 million), and €524 million of German trade tax NOL. The total NOL and tax credit carry forwards represent an amount of deferred tax assets of €654 million, of which €282 million are written down as at 31st December 2002. 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 2002		31st December 2001	
in €m	Total	thereof non-current	Total	thereof non-current
Deferred tax assets	2,992	1,877	4,288	2,924
Deferred tax liabilities	(2,014)	(1,350)	(806)	(689)
Deferred tax assets, net	**978**	**527**	**3,482**	**2,235**

The deferred tax recognised directly in equity is as follows:

in €m	2002	2001
Effect of adopting IAS 39	–	222
Fair value reserves in equity:		
Available-for-sale investments	8	1
Cash flow hedges	(1,051)	606
Total	**(1,043)**	**829**

10 Intangible assets

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

Cost in €m	Balance at 1st January 2002	Exchange differences	Additions	Changes in consolidation scope	Reclassifi-cation	Disposals	Balance at 31st December 2002
Other intangible assets	378	(10)	132	(5)	–	(25)	470
Goodwill	12,263	(9)	79	9	–	(3)	12,339
Total	**12,641**	**(19)**	**211**	**4**	**–**	**(28)**	**12,809**

Amortisation in €m	Balance at 1st January 2002	Exchange differences	Amortisation charge	Changes in consolidation scope	Reclassifi-cation	Disposals	Balance at 31st December 2002
Other intangible assets	(232)	6	(68)	4	–	23	(267)
Goodwill	(1,821)	1	(936)	3	–	0	(2,753)
Total	**(2,053)**	**7**	**(1,004)**	**7**	**–**	**23**	**(3,020)**

Carrying amount in €m	Balance at 1st January 2002	Balance at 31st December 2002
Other intangible assets	146	203
Goodwill	10,442	9,586
Total	**10,588**	**9,789**

Goodwill mainly increased in 2002 due to subsequent purchase price and fair value adjustments for MBDA (€+39 million), Cogent (€+29 million) and Tesat Spacecom (€+5 million).

Impairment tests

Mostly because of the continuing market downturn in the space industry, in particular the satellite industry, there was an indication for impairments of goodwill recognised for the Space division. The impairment tests for goodwill were performed on the level of the Cash Generating Units Satellite and Communication, Launchers and Infrastructure as well as Casa Space Business. To identify the recoverable amounts which are the values in use, the impairment tests have been conducted using the discounted cash-flow method. Based on current forecasts and projections of pre-tax cash-flows the value in use of these Cash Generating Units was determined applying a pre-tax discount rate of 12.5%. Since the recoverable amounts have fallen below the carrying amounts of the Cash Generating Units Satellite and Communication and Casa Space Business, an impairment charge of €350 million is recognised in the consolidated income statement 2002 and is included within the amortisation charge of €936 million.

In 2001, following the events caused by the terrorist attacks on 11th September 2001, the Group performed an impairment test on goodwill for the Airbus division, which is to be seen as a Cash Generating Unit by itself. As the recoverable amount exceeded the carrying amount, no impairment had to be recognised. Further impairment tests were performed for goodwill for the Space and Defence divisions, which resulted in impairments charges in 2001 for Astrium of €210 million, for Systems and Defence Electronics (S&DE) of €240 million, for LFK of €170 million and for Matra Datavision of €170 million.

11 Property, plant and equipment

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

Cost in €m	Balance at 1st January 2002	Exchange differences	Additions	Changes in consolidation scope	Reclassifi-cation	Disposals	Balance at 31st December 2002
Land, leasehold improvements and buildings including buildings on land owned by others	3,876	(39)	303	3	123	(44)	4,222
Technical equipment and machinery	4,512	(258)	466	(12)	1,202	(119)	5,791
Other equipment, factory and office equipment	7,219	(308)	340	31	(990)	(428)	5,864
Advance payments relating to plant and equipment as well as construction in progress	812	(31)	1,074	2	(108)	(62)	1,687
Total	**16,419**	**(636)**	**2,183**	**24**	**227**	**(653)**	**17,564**

Depreciation in €m	Balance at 1st January 2002	Exchange differences	Depreciation charge	Changes in consolidation scope	Reclassifi-cation	Disposals	Balance at 31st December 2002
Land, leasehold improvements and buildings including buildings on land owned by others	(1,267)	16	(200)	–	(53)	32	(1,472)
Technical equipment and machinery	(2,259)	170	(636)	7	(735)	101	(3,352)
Other equipment, factory and office equipment	(2,833)	164	(543)	(19)	760	292	(2,179)
Advance payments relating to plant and equipment as well as construction in progress	(10)	–	(46)	–	4	–	(52)
Total	**(6,369)**	**350**	**(1,425)**	**(12)**	**(24)**	**425**	**(7,055)**

Carrying amount in €m	Balance at 1st January 2002	Balance at 31st December 2002
Land, leasehold improvements and buildings including buildings on land owned by others	2,609	2,750
Technical equipment and machinery	2,253	2,439
Other equipment, factory and office equipment	4,386	3,685
Advance payments relating to plant and equipment as well as construction in progress	802	1,635
Total	**10,050**	**10,509**

The item "Other equipment, factory and office equipment" includes aircraft which (i) have been leased out to customers and are classified as operating lease with a cost value of €1,336 million and €1,294 million at 31st December 2002 and 2001, and (ii) have been sold under terms that include asset value guarantee commitments with the present value of the guarantee being more than 10% of the aircraft's sales price (assumed to be the fair value) and thus accounted for as operating lease with a cost value of €1,709 million and €1,912 million at 31st December 2002 and 2001. Upon the initial sale of the aircraft, its total cost previously recognised in inventory is transferred to "Other equipment, factory and office equipment" and depreciated over its estimated useful economic life, with the proceeds received from the customer being recorded as deferred income (see Note 21, "Deferred income").

The total cost value of aircraft under operating lease amounts to €3,045 million and €3,206 million as of 31st December 2002 and 2001, respectively (related accumulated depreciation is €1,445 million and €1,384 million, respectively). Depreciation expense for 2002 amounts to €263 million (2001: €419 million). See Note 24, "Commitments and contingencies" for details on sales financing transactions.

Non-cancellable future operating lease payments (not discounted) due from customers to be included in revenues, at 31st December 2002 are as follows:

in €m	
not later than 2003	179
later than 2003 and not later than 2007	653
later than 2007	352

In 2002, the Group reclassified five Beluga aircraft from "Other equipment, factory and office equipment" to "Technical equipment and machinery". These Beluga aircraft are used for production purposes. This was partly offset by a reclassification of certain leased Airbus aircraft from finance lease to operating lease, following a re-negotiation of terms, which are now part of "Other equipment, factory and office equipment".

At 31st December 2002 and 2001, Property, plant and equipment include buildings, technical equipment and other equipment accounted for in fixed assets under finance lease agreements for net amounts of €146 million and €169 million, net of accumulated depreciation of €296 million and €273 million. The related depreciation expense for 2002 was €23 million.

12 Investments and long-term financial assets

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

in €m	31st December 2002	31st December 2001
Investments in associates	1,333	1,252
Other investments	810	766
Other financial assets	2,732	2,708
Total	**4,875**	**4,726**

Investments in associates are accounted for using the equity method. As of 31st December 2002 and 2001, investments in associates contain EADS' interest in Dassault Aviation (45.96% at 31st December 2002 and 2001, respectively) of €1,333 million and €1,252 million. Since for 2002 no financial figures are available yet from Dassault Aviation, the prior year's net income was used as a basis to report the current year's income from this equity investment, adjusted by dividends received (see Note 8, "Financial result"). A list of major investments in associates and the proportion of ownership is included in Appendix "Information on principal investments".

Other investments comprise EADS' investment in various non-consolidated entities, the most significant being at 31st December 2002, a 42% interest in Nortel Networks Germany of €156 million, a 45% interest in Nortel Networks France of €119 million and a participation in Embraer of €75 million. The investments in the two Nortel subsidiaries are considered as non-consolidated entities because of the changes initiated by Nortel in 2001 in the management structures of these companies.

Other financial assets encompass mainly the Group's sales finance activities. This includes as of 31st December 2002 and 2001: (i) loans to customers of €656 million and €949 million; (ii) finance lease receivables from aircraft financing operations of €749 million and €514 million; (iii) defeased bank deposits of €1,146 million and €1,044 million. Loans are provided to customers to finance the sale of aircraft. These loans are long-term and normally have a maturity which is linked to the use of the aircraft by the customer. Both finance lease receivables and loans are part of the aircraft finance risk exposure, net of accumulated write down of €444 million and €477 million at 31st December 2002 and 2001, respectively. These sales financing transactions are generally secured by the underlying aircraft used as collateral. (See Note 24, "Commitments and contingencies" for details on sales financing transactions).

The components of investment in finance leases are as follows:

in €m	31st December 2002	31st December 2001
Minimum lease payment receivables	1,114	1,022
Unearned finance income	(217)	(222)
Allowance	(148)	(286)
Total	**749**	**514**

Future minimum lease payments and investments in finance leases to be received are as follows (not discounted):

in €m	
Not later than 2003	76
Later than 2003 and not later than 2007	340
Later than 2007	698

Defeased bank deposits are recognised when, as part of a sales financing transaction, Airbus reserves a certain amount to offset its exposure towards a finance lessor. Other financial assets also include €181 million and €201 million of other loans as of 31st December 2002 and 2001, e.g. loans to employees.

13 Inventories

in €m	31st December 2002	31st December 2001
Raw materials and manufacturing supplies	853	929
Work in progress	8,478	8,108
Finished goods, parts and products held for resale	1,525	1,796
Advance payments to suppliers	1,342	1,230
	12,198	**12,063**
Less: Advance payments received	(9,498)	(9,594)
Total	**2,700**	**2,469**

All inventories are classified as current assets. Incipient with 31st December 2002, the Group has changed the allocation from work in progress to finished goods, representing Airbus aircraft. EADS believes that it is a more appropriate presentation to include in finished goods only those aircraft which are ready for final delivery, including aircraft in flight tests. Previous to this, aircraft had been included in finished goods from the date of Theoretical First Flight. For comparative reasons, EADS has reclassified €1,518 million from finished goods to work in progress at 31st December 2001.

14 Trade receivables

in €m	31st December 2002	31st December 2001
Receivables from sales of goods and services	4,472	5,572
Allowance for doubtful accounts	(358)	(389)
Total	**4,114**	**5,183**

Trade receivables are classified as current assets. As of 31st December 2002, €275 million (€155 million as of 31st December 2001) of trade receivables are not expected to be collected within one year.

15 Other receivables and other assets

Other receivables and other assets as of 31st December 2002 and 2001 (€5,256 million and €2,633 million, respectively) include positive fair values of derivative financial instruments of €2,819 million and €92 million, respectively, and the remaining capitalised settlement payments to the German Government (€355 million and €454 million, respectively) attributable to refundable advances which are amortised through the income statement at the delivery pace of the corresponding planes.

As of 31st December 2002, other receivables and other assets further comprise receivables from affiliated companies of €247 million (€189 million as of 31st December 2001), receivables from related companies of €357 million (€352 million as of 31st December 2001), net of allowance of €(132) million (€(112) million as of 31st December 2001) and income taxes of €389 million.

Other receivables and other assets, which are expected to be collected within one year are €2,243 million as of 31st December 2002 (€1,610 million as of 31st December 2001), are classified as current assets.

16 Securities

The Group's security portfolio amounts to €4,497 million and €5,341 million as of 31st December 2002 and 2001, respectively, and is entirely classified as "Available-for-Sale". Securities expected to be realised within twelve months of the balance sheet date are classified as current assets and amount to €4,043 million and €4,954 million as of 31st December 2002 and 2001, respectively.

17 Shareholders' equity

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

The issued share capital of the Group consists of 811,198,500 and 809,175,561 shares as of 31st December 2002 and 2001, respectively. EADS' shares are exclusively ordinary shares with a par value of €1.00. The authorised share capital consists of 3,000,000,000 shares. In connection with the 2002 Employee Stock Ownership Plan (see Note 27, "Stock-based compensation"), EADS issued 2,022,939 shares, representing a nominal value of €2,022,939.00.

Authorised by the Shareholders' General Meeting of EADS held on 17th May 2002, the Board of Directors resolved on 9th August and 11th October 2002 to direct the Chief Executive Officers to implement a plan for the Company to repurchase up to a maximum of 10,100,000 of its own shares, representing 1.25% of the issued share capital of the Company. On 12th July and 18th September 2001, the Group's Board of Directors decided to launch a share buy back plan as authorised by the general meeting of shareholders on 10th May 2001. As a result, the Board of Directors directed the Chief Executive Officers to set up a buy back plan for 10,500,000 shares. In aggregate, the Company is entitled to repurchase up to 20.6 million of EADS shares, representing 2.54% of the Company's share capital.

In 2002, EADS purchased 10,241,252 of its own shares, resulting in an amount of 800,957,248 shares outstanding at 31st December 2002. Prior to 2002, the Group had not repurchased any shares.

On 17th May 2002, the Shareholders' General Meeting also decided to pay a cash dividend for 2001 for a gross amount of €0.50 per share, which was paid on 28th June 2002.

Capital stock comprises the nominal amount of shares outstanding. The addition to capital stock represents the contribution of €2,022,939 by employees under the 2002 Employee Stock Ownership Plan. Reserves contain capital reserves, retained earnings as well as the net result for the period. Accumulated other comprehensive income consists of all amounts recognised directly in equity resulting from changes in fair value of financial instruments that are classified as available-for-sale or that form part of hedging relationships in effective cash-flow hedges as well as from currency translation adjustments of foreign entities. Treasury shares represent the amount paid for own shares held in treasury.

18 Provisions

Provisions are comprised of the following:

in €m	31st December 2002	31st December 2001
Retirement plans (see Note 18 a) and similar obligations	3,392	3,176
Financial instruments (see Note 18 b)	161	3,673
Other provisions (see Note 18 c)	4,695	5,069
Total	**8,248**	**11,918**

As of 31st December 2002 and 2001, respectively, €3,209 million and €3,019 million of retirement plans and similar obligations, €11 million and €1,627 million of financial instruments as well as €3,194 million and €2,833 million of other provisions mature after 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 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 expected average remaining working lives of the employees participating in each plan when they exceed the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets.

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

Change in provision for pension obligations in 2002

in €m

Provision for pension obligations at beginning of year	3,151
Net periodic pension cost	319
Contributions	(16)
Consumption (benefits paid)	(109)
Acquisitions and other	12
Provision for pension obligations at end of year	**3,357**

The difference between the total amount of retirement plans and similar obligations of €3,392 million and €3,176 million as of 31st December 2002 and 2001, respectively, and the net amount recognised as provision for pension obligations (€3,357 million and €3,151 million at 31st December 2002 and 2001) is caused by additional commitments for deferred compensation (€35 million and €25 million at 31st December 2002 and 2001), which in the year of its origin do not form part of the net amount recognised as pension liability.

Change in defined benefit obligations

in €m	2002	2001
Defined benefit obligations at beginning of year	3,880	3,512
Service cost	124	84
Interest cost	229	220
Plan amendments	0	(8)
Actuarial losses	201	191
Acquisitions and other	8	12
Benefits paid	(155)	(131)
Defined benefit obligations at end of year	**4,287**	**3,880**

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. Actuarial losses of €201 million at 31st December 2002, result mainly from the decrease of the discount rate for pension obligations in Germany from 6.0% to 5.75%.

Change in plan assets

in €m	2002	2001
Fair value of plan assets at beginning of year	571	682
Actual return on plan assets	(35)	(70)
Contributions/ other	42	1
Benefits paid	(46)	(42)
Fair value of plan assets at end of year	**532**	**571**

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. Plan assets are not entirely exposed to fluctuations of stock markets, as only the smaller portion of plan assets is invested in such instruments.

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

in €m	31st December 2002	31st December 2001
Funded status[1]	3,755	3,309
Unrecognised actuarial net gains (losses)	(398)	(158)
Net amount recognised	**3,357**	**3,151**

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

Assumptions

in %	31st December 2002	31st December 2001
Discount rate	5.0–5.75	5.0–6.0
Rate of compensation increase	3.0	3.0–3.5
Inflation rate	1.75	2.0

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

in €m	2002	2001
Service cost	124	84
Interest cost	229	220
Expected return on plan assets	(42)	(47)
Net actuarial loss (gain)	8	0
Net periodic pension cost	**319**	**257**

b) Financial instruments

The provision for financial instruments (€161 million and €3,673 million as of 31st December 2002 and 2001) depicts the negative fair market value of foreign currency derivative financial instruments. The decrease is due to the strengthening of Euro against US Dollar (2002: 1 Euro = 1.0487 US Dollar; 2001: 1 Euro = 0.8813 US Dollar).

c) Other provisions
Other provisions consist of the following:

in €m	31st December 2002	31st December 2001
Aircraft financial risks	1,215	1,498
Outstanding invoices	802	820
Contract losses	433	450
Tax provisions	255	213
Warranties	180	198
Other risks and charges	1,810	1,890
Total	**4,695**	**5,069**

The provision for aircraft financial risks covers, in line with the Group's policy for sales financing risk, the net exposure to aircraft financing (€689 million at 31st December 2002) and asset value risks (€526 million at 31st December 2002) related to Airbus and ATR of Aeronautic division.

Movements in provisions during the year were as follows:

in €m	Balance at 1st January 2002	Exchange differences	Additions	Reclassifi-cation	Used/ Released	Balance at 31st December 2002
Aircraft financial risks	1,498	(236)	227	(126)	(148)	1,215
Outstanding invoices	820	0	380	(54)	(344)	802
Contract losses	450	(5)	145	(28)	(129)	433
Tax provisions	213	0	90	(7)	(41)	255
Warranties	198	(10)	64	7	(79)	180
Other risks and charges	1,890	(107)	636	98	(707)	1,810
Total	**5,069**	**(358)**	**1,542**	**(110)**	**(1,448)**	**4,695**

19 Financial liabilities

in €m	31st December 2002	31st December 2001
Bonds	209	426
Liabilities to financial institutions	256	286
Liabilities to affiliated companies	166	90
Loans	80	106
Liabilities from finance leases	100	110
Others	374	444
Short-term financial liabilities (due within one year)	**1,185**	**1,462**
Bonds	44	195
Liabilities to financial institutions *thereof due in more than five years: 810 (31st December 2001: 1,162)*	1,313	1,541
Liabilities to affiliated companies *thereof due in more than five years: 0 (31st December 2001: 9)*	0	18
Loans *thereof due in more than five years: 667 (31st December 2001: 1,217)*	968	1,648
Liabilities from finance leases *thereof due in more than five years: 688 (31st December 2001: 1,094)*	1,466	1,636
Long-term financial liabilities	**3,791**	**5,038**
Total	**4,976**	**6,500**

The decrease in financial liabilities from €6,500 million at 31st December 2001 to €4,976 million at 31st December 2002 is caused by positive foreign exchange rate effects of €782 million, repayments of bond obligations of €368 million and settlement of bank liabilities. Included in "Others" are financial liabilities against joint venture partners. Liabilities from finance lease to certain lessors are backed by defeased bank deposits of €1,146 million and €1,044 million as of 31st December 2002 and 2001, respectively.

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

in €m	Financial liabilities
2003	1,185
2004	193
2005	325
2006	393
2007	715
thereafter	2,165

20 Trade and other liabilities

in €m	31st December 2002	31st December 2001
Trade liabilities	5,070	5,466
Other liabilities	10,246	10,631
Total	**15,316**	**16,097**

At 31st December 2002, **Other liabilities** mainly comprise customer advance payments of €3,578 million (€4,509 million as of 31st December 2001), as well as European Governments refundable advances of €4,265 million (€3,469 million as of 31st December 2001). They also include further liabilities to related companies of €85 million (€68 million as of 31st December 2001) and to affiliated companies amounting to €80 million (€85 million as of 31st December 2001). Because of the US Dollar weakening in 2002, customer advance payments decreased by €449 million. The increase in European Governments refundable advances relates mostly to the A380-programme.

Maturities – Out of trade liabilities as of 31st December 2002, €33 million (€173 million as of 31st December 2001) mature after more than one year. Included in "Other liabilities" are €3,982 million due within one year and €3,715 million maturing after more than five years.

21 Deferred income

The main part of deferred income is related to sales of Airbus aircraft that include asset value guarantee commitments and that are accounted for as operating leases (€2,031 million and €2,309 million as of 31st December 2002 and 2001, respectively).

Notes to the consolidated statements of cash-flow

22 Consolidated cash-flow statement

As of 31st December 2002, EADS' cash position (stated as Cash and Cash Equivalents in the Consolidated Statement of Cash Flows) includes €227 million (€386 million as of 31st December 2001) representing the amount Airbus has deposited at BAES. Additionally included are €596 million and €414 million as of 31st December 2002 and 2001, respectively, which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAES and Finmeccanica. These funds are immediately available for EADS upon demand.

For the 31st December 2002 Consolidated Balance Sheet's and the 2002 Consolidated Statement of Cash-Flow's presentation, EADS has considered as part of the cash position (being cash and cash equivalents and certain qualifying securities, see Note 2, "Summary of significant accounting policies"), inter alia, an amount of €160 million related to Astrium. Due to the proportionate consolidation method for Astrium, this amount corresponds to cash advances made to Astrium for which EADS could claim the reimbursement from BAES, in accordance with the Astrium shareholders' agreement.

The following chart provides details on acquisitions and disposals of subsidiaries and business units:

in €m	31st December 2002	31st December 2001
Total purchase (disposal) price, aggregate	(71)	415
thereof discharged by cash and cash equivalents	(71)	415
Aggregate cash and cash equivalents from acquisitions and disposals	(9)	13

Included in the aggregate disposal price received in 2002 of €71 million is the cash amount received for the sale of Aircelle (€63 million). In 2001, the aggregate purchase price paid of €415 million mainly included the purchase of Cogent, Tesat and Dornier. The line "Results on disposal of fixed assets/businesses and result of associates (equity method)" in the consolidated cash flow statement includes in 2002 the gross result of associated companies (€134 million). The effect of foreign exchange rate changes on cash and cash equivalents amounts to €82 million, mainly caused by the weakening of the US Dollar in 2002.

23 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. EADS believes that it has made adequate provisions to cover current or contemplated litigation risks. 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 an effect on the Group's consolidated operating results for the particular reporting period in which an adjustment of the estimated reserve would be recorded, the Group believes that any such potential adjustment should not materially affect its consolidated financial position.

EADS is not aware of any other exceptional items or pending or threatened legal or arbitration proceedings that may have, or may have had in a recent period, a material adverse effect on its financial position, its activities, its results or its group, except as stated below.

EADS (more specifically, DADC and Dornier GmbH) is and was a party to several disputes and arbitration proceeding with the Dornier family shareholders, minority shareholders of Dornier GmbH. These disputes were about the validity of various resolutions of shareholders' meetings of Dornier GmbH primarily concerning contributions of Dornier activities and assets. These contributions were the subjects of two arbitration proceedings, which were successfully completed recently with the decisions being made in favour of EADS/Dornier GmbH. Also, the validity of some of these contributions was confirmed by the regional court of appeals in Stuttgart. However, other proceedings, in particular regarding the contribution of shares in Dornier Luftfahrt GmbH by Dornier to Fairchild Dornier Luftfahrt Beteiligungs GmbH, are still pending. EADS and Dornier GmbH expect that the remaining proceedings will be decided in their favour, as was the case with the recent decisions.

At the end of 2002 a request for arbitration was filed against a subsidiary of EADS involved in the supply of equipments under a commercial contract that was completed several years ago. EADS considers to have strong defences, both procedural and of substance, to oppose the claim. At this early stage of the procedure the financial risk cannot be assessed.

24 Commitments and contingencies

Contingent assets

EADS (more specifically Euromissile GIE) has recently been successful in an arbitration proceeding initiated by Thales and has been awarded on the basis of its counterclaim damages for which the principal amounts to €107.6 million, which were neither collected nor accounted for at 31st December 2002. The decision is immediately enforceable and the sums were paid to Euromissile GIE on 17th February 2003. However, Thales has filed a request for annulment of the arbitration decision.

Commitments and contingent liabilities

Sales financing – In relation to its Airbus and ATR activities, EADS is committing itself in sales financing transactions with selected customers.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. EADS believes that the estimated fair value of the aircraft securing such commitments will substantially offset any potential losses from the commitments. Any remaining difference between the amount of financing commitments given and the collateral value of the aircraft financed is provided for as a write-down to the relating asset, if assignable, or as a provision for aircraft financial risk. The basis for this write-down is a risk-pricing-model, which is applied at every closing to closely monitor the remaining value of the aircraft.

Depending on which party assumes the risks and rewards of ownership of a financed aircraft, the assets relating to sales financing are accounted for on the balance sheet either as (i) an operating lease (see Note 11, "Property, plant and equipment") or (ii) a loan to customers or (iii) a finance lease receivable (see Note 12, "Investments and long-term financial assets").

As of 31st December 2002, related accumulated write-down amounts to €459 million for operating lease and €444 million for loans and finance lease. €72 million are recorded as part of provisions for aircraft financial risk (see Note 18c, "Other provisions").

Certain sales financing transactions include the sale and lease back of the aircraft with a third party lessor under operating lease. Unless the Group has sold down the relating operating lease commitments to third parties, which assume liability for the payments, it is exposed to future lease payments. Future nominal operating lease payments that result from aircraft sales financing transactions are recorded off balance sheet and are scheduled to be paid as follows:

in €m	
Not later than 2003	244
Later than 2003 and not later than 2007	1,022
Later than 2007	1,738

Total aircraft lease commitments of €3,004 million as of 31st December 2002, arise from aircraft head-leases and are typically backed by corresponding sublease income from customers. A large part of these lease commitments (€1,552 million as of 31st December 2002) 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 has decreased from €1,853 million at 31st December 2001 to €1,452 million, mainly due to the weakening of the US Dollar as compared to Euro of €296 million. EADS determines its gross exposure to such operating leases as the present value of the related payment streams. The difference between gross exposure and the estimated value of underlying aircraft used as collateral, the net exposure, is provided for in full with an amount of €617 million as of 31st December 2002, as part of the provision for aircraft financial risk (see Note 18c, "Other provisions").

In addition, EADS is contingently liable in case **asset value guarantees** are provided to customers as part of aircraft sales. Airbus' management considers the financial risks associated with such guarantees to be manageable. Three factors contribute to this assessment: (i) the guarantee only covers a tranche of the estimated future value of the aircraft, and its level is considered prudent in comparison to the estimated future value of each aircraft; (ii) the asset value guarantee-related exposure is diversified over a large number of aircraft and customers; and (iii) the exercise dates of outstanding asset value guarantees are distributed through 2017, resulting in low levels of exposure maturing over the years. For instance, for each of the years 2003 to 2006, the average annual gross asset value exposure from asset value guarantees is approximately €280 million. The change in average exposure reflects the peak of asset value guarantee exercise dates in 2007. On a year-to-year basis, gross asset value guarantee exposure was unchanged in 2002 from 2001. The €526 million net exposure is fully provided for on the balance sheet, resulting in a residual net exposure of zero.

Because exercise dates for asset value guarantees are on average in the 10th year following aircraft delivery, asset value guarantees issued in 2003 will generally not be exercisable prior to 2013, and, therefore, an increase in near-term exposure is not expected.

While **backstop commitments** to provide financing related to orders on Airbus' and ATR's backlog are also given, such commitments are not considered to be part of gross exposure until the financing is in place, which occurs when the aircraft is delivered. This is due to the fact that (i) past experience suggests it is unlikely that all such proposed financings actually will be implemented, (ii) until the aircraft is delivered, Airbus or ATR retain the asset and do not incur an unusual risk in relation thereto, and (iii) third parties may participate in the financing. In order to mitigate Airbus and ATR exposure to unacceptable credits, such commitments typically contain financial conditions which guaranteed parties must satisfy in order to benefit therefrom.

Despite the underlying collateral, if Airbus should be unable to honour its obligations under sales financing transactions and asset value guarantees, certain EADS and BAES 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 S.A.S. With respect to ATR, each shareholder is jointly and severally liable to third parties without limitation. Amongst the shareholders, the liability is limited to each partner's proportionate share.

Pension commitments – EADS has several joint ventures with BAES, of which the most significant in terms of employees are Airbus and MBDA. In respect of each joint venture, for so long as BAES remains a shareholder, UK employees may stay in the BAES pensions schemes, which currently qualify as defined benefit plans. BAES has recently announced a shortfall in post retirement pension assets when compared with the respective liabilities amounting to £2,164 million (after assumed deferred tax) which would have been recognised in BAES' books had the new UK accounting standard FRS 17 already been implemented. As participants in the BAES schemes, EADS joint ventures are potentially affected by this shortfall. However, the joint venture agreements between EADS and BAES have the effect of capping the contributions that the joint venture has to make to the pension scheme for a certain period of time (e.g. until 2011 for Airbus). Any additional contribution would be paid by BAES. EADS is therefore not exposed to increased contribution payments resulting from the pension underfunding during the period of the contribution caps. At present, EADS has only limited information about how the underfunding could impact the joint ventures after the period of contribution caps has expired.

In the case of Astrium, following the agreement signed on 30th January 2003, it will no longer be a joint venture with BAES. EADS will establish a pension scheme for UK employees on the basis of a transfer payment from the existing scheme. Depending on the type of pension scheme that EADS sets up for UK employees, the estimate of the maximum exposure as at 31st December 2002 would be in the range of 30 M GBP and would be treated as acquisition costs, thereby not affecting net income.

Other commitments – Other commitments comprise contractual guarantees and performance bonds to certain customers.

Future nominal **operating lease payments** (for EADS as a lessee) for rental and lease agreements (not relating to aircraft sales financing) amount to €740 million as of 31st December 2002, and relate mainly to procurement operations (e.g., facility leases, car rentals). Maturities are as follows:

in €m	
Not later than 2003	71
Later than 2003 and not later than 2007	229
Later than 2007	440

25 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 and limitation of such financial risks at EADS is carried out by a central treasury department at EADS Headquarters under policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks is in the responsibility of established treasury committees and the Group's Divisions and Business Units.

Market risk

Currency risk – EADS manages a long-term hedge portfolio with a maturity of several years covering its net exposure to US Dollar sales, mainly from the activities of Airbus. This hedge portfolio covers the vast majority of the Group's hedging transactions.

EADS' revenues are mainly denominated in US Dollars, whereas a major portion of its costs is incurred in Euros and to a smaller extent in GBP. Consequently, to the extent that EADS does not use financial instruments to cover its net current and future foreign currency exchange rate exposure, its profits would be affected by changes in the Euro/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.

For financial reporting purposes, EADS designates a portion of the underlying items as the hedged position to cover its net US Dollar exposure, as appropriate. As hedging instruments, EADS primarily uses foreign currency forwards and option contracts.

EADS endeavours to hedge the majority of its exposure based on firm commitments and forecasted transactions. For products such as aircraft, EADS typically hedges forecasted sales in US Dollar for the following year up to 2010. The hedged items are defined as the first forecasted highly probable future cash inflows for a given month based upon final payments at delivery. The amount of the first flows is decided by a treasury committee and typically covers up to 100% of the equivalent of the net US Dollar exposure. For EADS, a forecasted transaction is regarded as highly probable if the future delivery is included in the audited order book or is very likely to materialise in view of contractual evidence (e.g., Letter of Intent). The coverage ratio may be adjusted to take into account macroeconomic movements affecting the spot and interest rates, as applicable.

For project related business EADS generally hedges 100% based on specific flows arising out of firm and individual contracts. Hedging is implemented on a individual project basis, i.e. a new contract.

Interest rate risk – The Group uses an asset and liability management approach with the objective to limit its interest rate risk. The Group undertakes to match the risk profile of its assets with a corresponding liability structure. The net interest rate exposure is managed through several types of instruments in order to minimise risks and financial impacts. Therefore, the Group may use interest rates derivatives for hedging purposes.

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. Regarding cash, 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.

Price risk – The cash and cash equivalents and securities portfolio of the Group is invested in non-speculative financial instruments, mostly highly liquid, such as certificates of deposits, overnight deposits, commercial papers and other money market instruments which generally have a maturity of less than three months, as well as in some listed fixed income securities with a maturity of generally less than one year. Therefore, the Group assesses its exposure towards price risk as minimal.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents at any time to meet its present and future commitments. This is safeguarded by the reported total amount of the Group's cash and cash equivalents, which is further supported by a substantial amount of unused committed credit facilities (€2.85 billion as 31st December 2002) . On a daily basis, EADS invests any surplus cash in non-speculative highly liquid financial instruments, such as certificates of deposits, overnight deposits, commercial papers and other money market instruments which generally have a maturity of less than three months.

Credit risk

EADS is exposed to credit risk to the extent of non-performance by its counterparts (e.g., airlines) with regards to e.g. financial instruments. However, the Group has policies in place to avoid concentrations of credit risk and to ensure that credit risk is limited. Sales of products and services are made to customers with an appropriate credit history. Cash transactions and derivative counterparts are limited to high credit quality financial institutions. EADS has set up a credit limit system to actively manage and limit its credit risk exposure. This limit system assigns maximum exposure lines to counterparts of financial transactions, based at a minimum on their credit ratings as published by Standard & Poors, Moody's and Fitch IBCA. The respective limits are regularly monitored and updated.

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. 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.

b) Notional amounts

The contract or notional amounts of derivative financial instruments shown below do not necessarily 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 foreign exchange derivative financial instruments are as follows, specified by year of expected maturity:

Year ended 31st December 2002

in €m	Not exceeding 1 year	Remaining period 1 year up to 5 years	More than 5 years	Total
Foreign exchange contracts:				
Net forward sales contracts	10,852	23,408	6,122	**40,382**
Purchased put options, net	1,094	343	0	**1,437**
Written call options, net	1,094	343	0	**1,437**

Year ended 31st December 2001

in €m	Not exceeding 1 year	Remaining period 1 year up to 5 years	More than 5 years	Total
Foreign exchange contracts:				
Net forward sales contracts	6,160	19,094	4,800	**30,054**
Purchased put options, net	3,290	1,507	0	**4,797**
Written call options, net	4,184	1,507	0	**5,691**

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:

	31st December 2002		31st December 2001	
in €m	Carrying amount	Fair value	Carrying amount	Fair value
Balance sheet treasury instruments				
Assets:				
Financial assets	4,875	4,875	4,726	4,726
Securities	4,497	4,497	5,341	5,341
Cash and cash equivalents	1,703	1,703	2,692	2,692
Liabilities:				
Financial liabilities	4,976	4,976	6,500	6,500
Derivative financial instruments				
Currency contracts with positive fair values	2,804	2,804	54	54
Currency contracts with negative fair values	(161)	(161)	(3,673)	(3,673)
Interest rate contracts with positive fair values	15	15	38	38
Interest rate contracts with negative fair values	0	0	(29)	(29)

The fair value gains and losses at 31st December 2002 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 7 years from the balance sheet date. As at 31st December 2002, a net unrealised gain, net of deferred tax of €1,498 million, was recognised in equity in respect of these contracts.

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 like estimates as of 31st December 2002 and 2001, which 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.

Long-term debt; short-term debt – Neither long term nor short term debt is 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. If a quoted market price is not available, fair value is determined on the basis of generally accepted valuation methods on the basis of market information available at the reporting 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 2002 and 2001.

26 Segment reporting

The Group operates in 5 divisions (segments) which reflect the internal organisational and management structure according to the nature of the products and services provided:

- **Airbus** – Development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats.
- **Military Transport** – Development, manufacturing, marketing and sale of light and medium military transport aircraft and special mission aircraft.
- **Aeronautics** – Development, manufacturing, marketing and sale of civil and military helicopters, military combat and trainer aircraft, regional turboprop aircraft and light commercial aircraft; and civil and military aircraft conversion and maintenance services.
- **Defence and Civil systems** – Development, manufacturing, marketing and sale of missiles systems; and provision of defence electronics, military and commercial telecommunications solutions; and logistics, training, testing, engineering and other related services
- **Space** – Development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers; and provision of launch services.

The following tables present information with respect to the Group's business segments. Consolidation effects, the holding function of EADS headquarters and other activities not allocable to the divisions are disclosed in the column "HQ/Conso.".

Business segment information
Year ended 31st December 2002

in €m	Airbus	Military Transport	Aero-nautics	Defence and Civil Systems	Space	HQ/ Conso.	Conso-lidated
External revenues	19,512	524	5,304	3,306	2,216	(961)	29,901
Internal revenues	177	184	599	91	7	43	1,101
Total revenues	**19,689**	**708**	**5,903**	**3,397**	**2,223**	**(918)**	**31,002**
Result before financial income and income tax	818	(87)	182	(107)	(626)	(20)	160
EBIT pre goodwill amortisation and exceptionals (see definition below)	1,361	(80)	261	40	(268)	112	1,426
Share of net profit of associates	0	0	0	0	(3)	111	108
Income/loss from other investments, interest and other financial result							(81)
Income taxes							(453)
Minority interest							(33)
Net income (loss)							(299)
Other information							
Identifiable segment assets (incl. goodwill)	26,776	696	6,969	6,440	3,068	3,451	47,400
Goodwill	6,715	0	948	1,455	436	32	9,586
Investments in equity method associates	0	0	0	0	0	1,333	1,333
Segment liabilities	20,797	521	5,394	4,290	2,698	(426)	33,274
Capital expenditures	1,674	68	198	128	89	157	2,314
Depreciation, amortisation	1,614	64	225	214	141	160	2,418
Impairment losses recognised in income	0	0	0	0	350	0	350
Research and development expenses	1,682	40	150	167	59	(2)	2,096

Business segment information
Year ended 31st December 2001

in €m	Airbus	Military Transport	Aero-nautics	Defence and Civil Systems	Space	HQ/ Conso.	Conso-lidated
External revenues	20,549	547	5,065	3,345	2,439	(1,147)	30,798
Internal revenues	179	185	721	131	15	57	1,288
Total revenues	**20,728**	**732**	**5,786**	**3,476**	**2,454**	**(1,090)**	**32,086**
Result before financial income and income tax	905	(53)	286	132	(131)	1,375	2,514
EBIT pre goodwill amortisation and exceptionals (see definition below)	1,655	1	308	(79)	(222)	31	1,694
Share of net profit of associates	(12)	0	0	(14)	(63)	111	22
Income/loss from other investments, interest and other financial result							(535)
Income taxes							(646)
Minority interest							17
Net income (loss)							1,372
Other information							
Identifiable segment assets (incl. goodwill)	27,264	568	7,187	5,583	3,462	4,651	48,715
Goodwill	7,089	0	1,005	1,464	736	148	10,442
Investments in equity method associates	0	0	0	0	0	1,252	1,252
Segment 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	1,625	21	278	567	121	158	2,770
Impairment losses recognised in income	0	0	0	580	210	0	790
Research and development expenses	1,425	53	132	173	60	(2)	1,841

As a rule, inter-segment transfers are carried out on an arm's length basis. Inter-segment sales predominantly take place between Aeronautics and Airbus, as the Aeronautics division acts as a main supplier for Airbus aircraft. Capital expenditures represent the additions to property, plant and equipment and to intangible assets (excluding goodwill).

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 amortisation and exceptionals is treated by management as a key indicator to measure the segments' economic performances.

in €m	2002	2001
Income before financial result, income taxes and minority interests	**160**	**2,514**
Dilution gain Airbus UK, MBDA	0	(2,794)
Goodwill amortisation and related impairment charges	936	1,466
Exceptional depreciation (fixed assets)	227	260
Exceptional depreciation (financial assets)	0	315
Exceptional depreciation (inventories)	16	275
Income from investments	87	(342)
EBIT pre goodwill amortisation and exceptionals	**1,426**	**1,694**

Revenues by destination:

in €m	2002	2001
France	3,872	3,521
Germany	2,476	3,588
Other European Countries	8,009	6,946
North America	10,562	10,394
Latin America	1,259	1,749
Asia	2,767	2,920
Other Countries	956	1,680
Consolidated	**29,901**	**30,798**

Revenues are allocated to geographical areas based on the location of the customer. Included in "Other European Countries" in 2001 is the reclassification of revenues to external customers in Turkey (€218 million), which have previously been classified to Asia. In 2002, external revenues in Turkey amounted to €201 million.

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

27 Stock-based compensation

a) Stock Option Plans

The Board of Directors of EADS approved the establishment of a stock option plan for 2002 for the members of the Executive Committee and senior managers of the Group. Stock options for the purchase of 7,276,700 EADS shares were granted on 9th August 2002, of which 864,000 were granted to the members of the Executive Committee. 1,562 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 €16.96 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.

Previous to 2002, EADS established the stock option plans of 2001 and 2000. These plans provide, similar to the 2002 stock option plan, for the granting of options for the purchase of EADS shares to the members of the Executive Committee as well as to senior managers of the Group. The following table summarises the development of stock options:

	Number of options				
	Originally issued	Balance at 1st January 2002	Exercised	Forfeited	Balance at 31st December 2002
2000	5,564,884	5,375,400	–	–	5,375,400
2001	8,524,250	7,926,425	–	–	7,926,425
2002	7,276,700	–	–	(600)	7,276,100
Total	**21,365,834**	**13,301,825**	**–**	**(600)**	**20,577,925**

For the 2002 stock option plan, analogous to all of EADS' previous existing stock option plans, the granted exercise price was exceeding the share price at grant date. Therefore, no compensation expense has been recognised.

b) Employee stock ownership plan (ESOP)
In 2002, the Board of Directors approved an additional ESOP following two ESOPs established in 2001 and in 2000. For the 2002 ESOP, eligible employees were able to purchase a maximum of 500 shares per employee of previously unissued shares. The offer was broken down into two tranches which were available for all employees to choose. The subscription price for tranche A was €7.93, calculated as a discount of 14.5% from the lowest market price on the Paris stock exchange on 11th October 2002 (fixed at €9.28), the day the Board of Directors granted the right to purchase shares within the ESOP 2002. 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 twenty stock market days preceding 12th October 2001, resulting in a subscription price of €8.86.

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 2,022,939 ordinary shares with a nominal value of €1.00 under both tranches. No compensation expense was recognised in connection with the ESOP 2002.

28 Related party transactions

Related parties – The Group has entered into various transactions with related companies in 2002 and 2001 that have all been carried out in the normal course of business. As is the Group's policy, all related party transactions have to be carried out at arm's length. Transactions with related parties include the French State, DaimlerChrysler, Lagardère, and SEPI (Spanish State). Except for the transactions with the French State the transactions are not considered material to the Group either individually or in the aggregate. The transactions with the French State include mainly sales from the Aeronautics, Defence, and Space divisions.

Remuneration – Remuneration and related costs of the members of the Board of Directors and former Directors amount to €7.29 million as of 31st December 2002 (2001: €5.60 million). Since the exercise price for stock options granted to Directors exceeded the share price at grant date, this amount does not comprise compensation cost for stock-based compensation. EADS has not provided any loans to/advances to/guarantees on behalf of (retired) Directors. Reference is made to Note 27, "Stock-based compensation", in this document and to Note 9, "Remuneration", of the Notes to EADS N.V. Financial Statements.

29 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.

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 2001	Exchange differences	Additions	Disposals	Depreciation/ amortisation	Changes in consolidation scope	Net at 31st December 2002
Book value of Investment Property	97	0	0	0	(1)	0	96

As of 31st December 2002 and 2001, the fair value of the Group's investment property amounts to €98 million. Related rental income in 2002 is €13 million (2001: €12 million) with direct operating expenses arising from investment property that generated rental income amount of €10 million (2001: €7 million).

30 Interest in joint ventures

The Group's principal investments in joint ventures and the proportion of ownership are included in Appendix "Information on principal investments". Joint ventures are consolidated for using the proportionate method. The following amounts represent the Group's aggregate share of the assets and liabilities and income and expenses of the joint ventures:

in €m	2002	2001
Fixed assets	1,073	1,302
Non-fixed assets	2,909	2,342
Provisions	661	774
Liabilities	2,937	2,256
Revenues	2,556	1,811
Result before income taxes	(205)	(91)
Income taxes	(6)	(7)
Net income (loss)	(212)	(95)

31 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, excluding ordinary shares purchased by the Group and held as treasury shares.

	2002	2001
Net income/(loss) attributable to shareholders (in €m)	(299)	1,372
Weighted average number of ordinary shares in issue	804,116,877	807,295,879
Basic earnings per share (in €)	(0.37)	1.70

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 all existing stock option plans initiated by the Group is exceeding the share price of EADS shares, to include these potential ordinary shares would be anti-dilutive. As a consequence, net income as well as the weighted number of ordinary shares in issue is the same for both basic and diluted earnings per share.

	2002	2001
Net income/(loss) attributable to shareholders (in €m)	(299)	1,372
Weighted average number of ordinary shares in issue	804,116,877	807,295,879
Diluted earnings per share (in €)	(0.37)	1.70

32 Number of employees

The number of employees at 31st December 2002 is 103,967 as compared to 102,967 at 31st December 2001.

33 Events after the balance sheet date

Astrium

EADS acquired BAES' 25 percent interest (27.5% economic share) in Astrium N.V. The transaction was signed on 30th January 2003 and will be accounted for under the purchase method as soon as all regulatory clearances have been obtained. Full control of Astrium N.V. as well as of Paradigm Secure Communications Ltd., formerly held jointly by BAES and EADS, will then be transferred to EADS at this date.

At completion of the transaction, EADS acquired BAES' share in Astrium N.V. for €84 million. Prior to completion, EADS and BAES each made a capital contribution into Astrium N.V. of €84 million (total €168 million). Taking into account the cash contribution, BAES' interest has been effectively transferred to EADS for no net cash consideration.

In July 2002, EADS and BAES had announced their intention for EADS to acquire the interest of BAES in Astrium N.V. and formed Paradigm Secure Communications Ltd. to address service provision for the proposed Skynet 5 military communications satellite programme for the UK Ministry of Defence. Under the original terms, completion of the sale of the Astrium interest was conditional on completion of contracts with the UK Ministry of Defence for the Skynet 5 programme. In the event of EADS not achieving financial close of the Skynet 5 contract, BAES will pay €55 million to EADS.

Euro Medium Term Note ("EMTN") programme

On 6th February 2003, EADS launched a €3.0 billion EMTN programme, a contractual framework that allows EADS to raise debt from capital markets through dealers in successive issues of notes governed by the same terms. Each issue, however, may bear a different maturity (in this case between one month and 30 years) and interest rate.

On 27th February 2003, EADS has issued an inaugural Eurobond benchmark transaction under the EMTN programme of €1 billion. The objectives of this initial issue are to refinance existing debt and lengthen the maturity profile of the Group's debt. This bond has a maturity of seven years and carries a yearly coupon of 4.625%.

Information on principal investments

	2002	%	2001	%	Company	Head office
Airbus	F	80.00	F	80.00	Airbus S.A.S	Toulouse (France)
	F	80.00	F	80.00	Airbus France S.A.S	Toulouse (France)
	F	80.00	F	80.00	Airbus Holding SA	France
	F	80.00	F	80.00	EADS CASA S.A. (Unit: EADS CASA AIRBUS)	Madrid (Spain)
Liquidated			F	80.00	SATIC G.I.E.	Colomiers (France)
	F	80.00	F	80.00	Airbus Finance Company Holdings BV	Amsterdam (Netherlands)
	F	80.00	F	80.00	Airbus Finance Company Ltd	Dublin (Ireland)
	F	80.00	F	80.00	Airbus Deutschland GmbH	Hamburg (Germany)
	F	80.00	F	80.00	KID-Systeme GmbH	Buxtehude (Germany)
	F	80.00	F	80.00	Aircabin GmbH	Laupheim (Germany)
Merged into Airbus Deutschland GmbH (1. 1. 2002)	F	80.00	F	80.00	DEX Beteiligungs- und Verwaltungs GmbH	Ottobrunn (Germany)
Merged into Airbus Deutschland GmbH (1. 1. 2002)	F	80.00	F	80.00	ZDW Beteiligungs- und Verwaltungs GmbH	Munich (Germany)
Merged into Airbus Deutschland GmbH (1. 1. 2002)	F	80.00	F	80.00	Airbus Beteiligungs GmbH	Ottobrunn (Germany)
	F	80.00	F	80.00	Airbus Industrie G.I.E.	Blagnac (France)
	F	79.99	F	79.99	AVSA SARL	Blagnac (France)
	F	80.00	F	80.00	AI Participations S.A.R.L.	Blagnac (France)
Liquidated			F	79.90	Société Commerciale A-300 S.A.SOCA	Blagnac (France)
	F	80.00	F	80.00	Airbus Simulators Services S.N.C. (ASS)	Blagnac (France)
	F	80.00	F	80.00	Airbus Transport International S.N.C. (ATI)	Blagnac (France)
	F	40.00	F	40.00	Airbus Military Company S.A.S.	Toulouse (France)
	P	16.00	P	16.00	Groupemente Immobilier Aéronautique S.A. (GIA)	France
	F	80.00	F	80.00	Airbus Mauritius limited	Mauritius
	E	16.00	E	16.00	Alexandra Bail G.I.E	France
	F	80.00	F	80.00	Airbus China limited	Hong-Kong
Disposal			F	40.00	Aircelle S.A.S	France
	F	80.00	F	80.00	Airbus Ré S.A.	Luxemburg
	F	80.00	F	80.00	AVSA Canada Inc	Canada
	F	80.00	F	80.00	Airbus North American Holdings Inc. (ANA)	USA
	F	80.00	F	80.00	Airbus Service Company Inc. (ASCO)	USA
	F	80.00	F	80.00	AI leasing Inc.	USA
	F	80.00	F	80.00	Norbus	USA
	F	80.00	F	80.00	AINA Inc.	USA
	F	80.00	F	80.00	128829 Canada Inc.	Canada
Addition	F	80.00			Wichita	USA
	F	80.00	F	80.00	Airbus Industrie Financial Service Holdings B.V. (AIFS)	Netherlands
	F	80.00	F	80.00	Airbus Industrie Financial Service Holdings ltd.(AIFS)	Ireland
	F	80.00	F	80.00	Airbus Industrie Financial Service ltd. (AIFS)	Ireland
	F	80.00	F	80.00	AIFS (Cayman) ltd.	Cayman Isle
	F	80.00	F	80.00	AIFS Cayman Liquidity ltd.	Cayman Isle
	F	80.00	F	80.00	A320 Financing limited	Ireland
	F	72.00	F	72.00	AIFI LLC	Isle Of Man
	F	80.00	F	80.00	Airbus UK Limited	UK
	F	80.00	F	80.00	Airbus Invest	Toulouse (France)
	F	80.00	F	80.00	EADS Aéro	Toulouse (France)
	F	80.00	F	80.00	EADS Star Real Estate SAS	Boulogne (France)
	E	24.00	E	24.00	Tenzing communication inc	USA
	F	80.00	F	80.00	AFS (Cayman) Ltd	Cayman Isle
	F	80.00	F	80.00	Aviateur Limited	Ireland
	F	80.00	F	80.00	Aviateur International Limited	Ireland
	F	80.00	F	80.00	Aviateur Finance Limited	Ireland
	F	80.00	F	80.00	Aviateur Leasing Limited	Ireland
	F	80.00	F	80.00	Avalo LLC	Isle of Man
	F	80.00	F	80.00	Avalo Leasing Limited	Ireland
	F	80.00	F	80.00	Avalo Aerospace limited	Ireland
	F	80.00	F	80.00	Avalo International limited	Ireland
	F	80.00	F	80.00	Total Airline Service Company	Ireland
	F	80.00	F	80.00	AIFS Leasing Company Limited	Ireland
	F	80.00	F	80.00	AA Credit Aviation LLC	Ireland
	F	80.00	F	80.00	AFC (USA) 1 inc	USA
Additionally consolidated are 34 SPCs						
Defence and Civil Systems	F	100.00	F	100.00	FmElo Elektronik- und Luftfahrtgeräte GmbH	Ulm (Germany)
	F	100.00	F	100.00	Hagenuk Marinekommunikation GmbH	Flintbek (Germany)
	F	100.00	F	100.00	EUROBRIDGE Mobile Brücken GmbH	Friedrichshafen (Germany)
	F	100.00	F	100.00	EADS Deutschland GmbH – Verteidigung und Zivile Systeme	Ulm (Germany)
	F	75.89	F	57.55	Dornier Verteidigung und Zivile Systeme	Friedrichshafen (Germany)
	F	100.00	F	100.00	EADS Funkkommunikation GmbH	Ulm (Germany)
	F	100.00	F	100.00	Ewation GmbH	Ulm (Germany)
	F	100.00	F	100.00	Matra Aerospace Inc. (M.A.I.)	Frederick Maryland (USA)
	F	100.00	F	100.00	Fairchild Controls Corporation	Frederick Maryland (USA)
Disposal				100.00	Germantown Holding Company	Frederick Maryland (USA)
	F	100.00	F	100.00	Manhattan Beach Holdings Co.	Frederick Maryland (USA)
	F	100.00	F	100.00	EADS Systems & Defence Electronics	Velizy (France)
	F	50.97	F	50.97	APIC	Arcueil (France)
Disposal				100.00	G 2 I	Velizy (France)
	F	100.00	F	100.00	EADS Services	Boulogne (France)
	F	80.00	F	80.00	Pentastar Holding	Paris (France)
	F	55.00	F	55.00	Aviation Defense Service S.A.	Saint-Gilles (France)
Addition	F	100.00			Operations Services Germany	Unterschleißheim (Germany)

Defence and Civil Systems

	2002	%	2001	%	Company	Head office
Addition	F	100.00			Gesellschaft für Flugzieldarstellung mbH	Germany
	F	100.00	F	100.00	M.C.N. SAT HOLDING	Velizy (France)
	F	100.00	F	100.00	MULTICOMS (MNC Sat Services)	Sèvres (France)
	F	100.00	F	100.00	International Test & Services	Velizy (France)
	F	100.00	F	100.00	TYX Corp.	Reston, VA, USA
	F	99.99	F	99.99	ARC	CA, USA
	F	100.00	F	100.00	EADS Telecom Federal Systems Division	San Antonio, TX, USA
Addition	F	100.00			Proj2	Paris (France)
	F	100.00	F	100.00	M.P. 13	Paris (France)
Disposal			F	100.00	EADS Matra Datavision S.A.	Paris (France)
Disposal			F	100.00	EADS Matra Datavision International	Les Ulis (France)
Disposal			F	100.00	EADS Matra Datavision Ltd	Coventry (UK)
Disposal			F	100.00	EADS Matra Datavision AG	Regensdorf (Switzerland)
Disposal			F	100.00	EADS Matra Datavision Benelux	Brussels (Belgium)
Disposal			F	100.00	EADS Matra Datavision Asia Pacific	Wanchai (Hong Kong)
Disposal			F	100.00	EADS Matra Datavision B.V.	Leiden (Netherlands)
Disposal			F	100.00	EADS Matra Datavision GmbH	Munich (Germany)
Disposal			F	100.00	EADS Matra Datavision Iberia	Madrid (Spain)
Disposal			F	100.00	EADS Matra Datavision Inc.	Andover (USA)
Disposal			F	100.00	EADS Matra Datavision Kk	Tokyo (Japan)
	F	100.00	F	100.00	EADS Matra Datavision SpA	Turin (Italy)
	F	100.00	F	100.00	Open CasCade	Paris (France)
	F	100.00	F	100.00	Matra Defense	Velizy (France)
	F	100.00	F	100.00	Matra Holding GmbH	Frankfurt (Germany)
	P	37.50	P	37.50	MBDA SAS	Velizy (France)
	P	37.50	P	37.50	MBD Management S.A	Velizy (France)
	P	37.50	P	37.50	ALKAN	Valenton (France)
	P	37.50	P	37.50	MBDA France	Velizy (France)
	P	37.50	P	37.50	MBDA UK Ltd.	Stevenage, Herts (UK)
	P	37.50	P	37.50	Matra Electronique	La Croix Saint-Ouen (France)
	P	37.50	P	37.50	MBDA M S.A.	Chatillon sur Bagneux (France)
	P	37.50	P	37.50	MBDA Inc	Westlack, CA (USA)
	P	37.50	P	37.50	MBDA Italy SpA	Roma (Italy)
	P	37.50	P	37.50	MBDA Treasury	Jersey (UK)
	P	37.50	P	37.50	Marconi Overside Ldt.	Chelmsford (UK)
	P	37.50	P	37.50	AMS Dynamics Ldt.	Guernsey (UK)
	P	50.00	P	50.00	Celerg	Saint-Médard (France)
	P	50.00	P	50.00	Celerg international	Saint-Médard (France)
	P	50.00	P	50.00	International de systemes propulsifs	Paris (France)
	F	81.25	F	76.95	LFK – Lenkflugkörpersysteme GmbH	Unterschleißheim (Germany)
	F	98.00	F	98.00	TDW – Ges. für verteidigungstechnische Wirksysteme GmbH	Schrobenhausen (Germany)
	F	100.00	F	100.00	EADS Deutschland GmbH – VA (Restaktivitäten)	Unterschleißheim (Germany)
	F	67.00	F	67.00	TAURUS Systems GmbH	Schrobenhausen (Germany)
	P	50.00	P	50.00	Bayern-Chemie Gesellschaft für flugchemische Antriebe mbH	Aschau/Inn (Germany)
	F	100.00	F	100.00	Propulsion Tactique S.A.	La Ferte Saint Aubin (France)
	P	50.00	P	50.00	TDA – Armements S.A.S.	La Ferte Saint Aubin (France)
	P	50.00	P	50.00	Forges de Zeebrugge S.A.	Herstal-Liege (Belgium)
	F	59.00	F	59.00	EADS Telecom SAS	Bois d'Arcy (France)
	F	59.00	F	59.00	EADS Telecom Espana	Madrid (Spain)
	F	59.00	F	59.00	EADS Telecom Deutschland GmbH	Unterschleißheim (Germany)
	F	59.00	F	59.00	EADS Telecom Deutschland GmbH	Ulm (Germany)
	F	59.00	F	59.00	EADS Telecom Mexico SA de CV	Mexico DF (Mexico)
	F	59.00	F	59.00	EADS Telecom Benelux	Bruxelles (Belgium)
	F	59.00	F	59.00	EADS Telecom Danmark	Copenhague (Denmark)
	F	59.00	F	59.00	EADS Telecom SpA	Milan (Italy)
	F	100.00	F	100.00	EADS Telecom (ex-MNH)	Paris (France)
	F	100.00		100.00	MATRAnet	Velizy (France)
Disposal			F	100.00	MATRAnet Inc.	Redwood shores, CA (USA)
	F	100.00	F	100.00	Matra Communication USA Inc	Dallas, Texas (USA)
	F	98.95	F	93.00	EADS Telecom North America	Dallas, Texas (USA)
	F	98.95	F	100.00	Intecom Holding ULC	Dallas, Texas (USA)
	F	100.00	F	100.00	EADS Telecom Canada Ltd	Dallas, Texas (USA)
	F	98.95	F	100.00	Pyderion Contact Technologies Inc.	Dallas, Texas (USA)
	F	100.00	F	100.00	Cogent DSN	Newport (UK)
Addition	F	100.00			Sycomore S.A.	Boulogne (France)

Information on principal investments

		2002	%	2001	%	Company	Head office
Space		F	100.00	F	100.00	Amanthea Holding B.V.	Amsterdam (Netherlands)
		P	75.00	P	75.00	ASTRIUM GmbH	Munich (Germany)
		P	75.00	P	75.00	ASTRIUM Ltd.	Stevenage (Great Britain)
		P	75.00	P	75.00	ASTRIUM N.V.	The Hague (Netherlands)
		P	75.00	P	75.00	ASTRIUM SAS	Toulouse (France)
		P	75.00	P	75.00	Computadoras, Redes e Ingenieria SA (CRISA)	Madrid (Spain)
		F	100.00	F	100.00	EADS CASA S.A. (Unit: EADS CASA Space)	Madrid (Spain)
		F	100.00	F	100.00	EADS Deutschland GmbH – Space Services	Munich (Germany)
		F	68.40	F	68.40	EADS Dornier Raumfahrt Holding GmbH	Munich (Germany)
		F	100.00	F	100.00	EADS Launch Vehicles	Velizy (France)
		F	100.00	F	100.00	Global DASA LLC	New York (USA)
		E	33.30	E	33.30	Loral Dasa Globalstar L.P.	New York (USA)
		P	75.00	P	75.00	Matra Marconi Space UK Ltd.	Stevenage (Great Britain)
		P	50.00	P	50.00	MMS Space Holdings N.V.	Amsterdam (Netherlands)
		P	75.00	P	75.00	MMS Systems Ltd	Stevenage (Great Britain)
		E	48.00	E	43.00	Nahuelsat S.A.	Buenos Aires (Argentina)
		P	75.00	P	75.00	NRSCL Infoterra Ltd	Southwood (Great Britain)
		P	75.00	P	75.00	TESAT-Spacecom Geschäftsführung GmbH	Backnang (Germany)
		P	75.00	P	75.00	TESAT-Spacecom GmbH & Co. KG	Backnang (Germany)
Military Transport Aircraft		F	100.00	F	100.00	EADS CASA S.A. (Unit: EADS CASA Military Transport Aircraft)	Madrid (Spain)
Aeronautics		F	100.00	F	100.00	Elbe Flugzeugwerke GmbH	Dresden (Germany)
		F	100.00	F	100.00	EADS EFW Beteiligungs- und Verwaltungsgesellschaft GmbH	Munich (Germany)
		F	100.00	F	100.00	EADS Sogerma S.A.	Mérignac (France)
		F	100.00	F	100.00	EADS Seca S.A.	Le Bourget (France)
		F	100.00	F	100.00	Sogerma America Barfield B.C.	Miami, Florida (USA)
		F	100.00	F	100.00	EADS Revima S.A.	Tremblay en France (France)
		F	50.10	F	50.10	Composites Aquitaine S.A.	Salaunes (France)
		F	100.00	F	100.00	Maroc Aviation S.A.	Casablanca (Morocco)
		F	100.00	F	100.00	Noise Reduction Engineering B.C.	Washington D.C. (USA)
		F	80.00	F	80.00	Aerobail GIE	Paris (France)
		F	88.00	F	81.00	EADS Aeroframe services LLC	Lake Charles, Louisiana (USA)
		F	50.10	F	50.10	EADS Sogerma Tunisie	Monastir (Tunisia)
	Addition	F	100.00			EADS Revima APU S.A.	Caudebec en Caux (France)
	Addition	F	50.00			Composites Atlantic Ltd.	Halifax (Canada)
		F	100.00	F	100.00	Eurocopter Holding S.A.	Paris (France)
		F	100.00	F	100.00	Eurocopter S.A.	Marignane (France)
		F	100.00	F	100.00	Eurocopter Deutschland GmbH	Munich (Germany)
		F	100.00	F	100.00	American Eurocopter Corp.	Dallas, Texas (USA)
		F	100.00	F	100.00	Eurocopter Canada Ltd.	Ontario (Canada)
		F	75.00	F	75.00	Eurocopter South East Asia	Singapore
		F	76.52	F	76.52	Helibras – Helicopteros do Brasil S.A.	Itajuba (Brazil)
		F	100.00	F	100.00	EADS Socata S.A.	Le Bourget (France)
		F	100.00	F	100.00	EADS Deutschland GmbH – Military Aircraft	Munich (Germany)
		F	100.00	F	100.00	Dornier Flugzeugwerft GmbH	Manching (Germany)
		F	100.00	F	100.00	EADS CASA S.A. (Unit: EADS CASA Military Aircraft)	Madrid (Spain)
		F	100.00	F	100.00	EADS ATR S.A.	Toulouse (France)
		P	50.00	P	50.00	ATR GIE	Toulouse (France)
	Additionally consolidated are 45 SPCs.						
Headquarters		F	100.00	F	100.00	EADS France	Paris (France)
		F	100.00	F	100.00	EADS Deutschland GmbH – Zentrale	Munich (Germany)
		F	100.00	F	100.00	EADS Deutschland GmbH, LO – Liegenschaften OTN	Munich (Germany)
		F	100.00	F	100.00	EADS Deutschland GmbH, FO – Forschung	Munich (Germany)
		F	100.00	F	100.00	EADS Raumfahrt Beteiligungs GmbH	Ottobrunn (Germany)
		F	75.00	F	75.00	DADC Luft- und Raumfahrt Beteiligungs AG	Munich (Germany)
		F	75.88	F	58.42	Dornier Zentrale	Friedrichshafen (Germany)
		F	100.00	F	100.00	EADS CASA S.A. (Headquarters)	Madrid (Spain)
		E	45.96	E	45.96	Dassault Aviation	Paris (France)
		E	45.96	E	45.96	Dassault International France	Vaucresson (France)
		E	45.96	E	45.96	Dassault Falcon Jet and subsidiaries	Teterboro NJ (USA)
		E	45.96	E	45.96	Sogitec Industries	Suresnes (France)
		E	45.96	E	45.96	Dassault Falcon Service	
		E	45.96	E	45.96	IPS	
		E	45.96	E	45.96	Dassault Aero Service	
		E	45.96	E	45.96	Dassault Assurances Courtage	
		E	45.96	E	45.96	Dassault International Inc	Paramus NJ (USA)
		E	45.96	E	45.96	Société Toulouse Colomiers	
		F	100.00	F	100.00	Airbus Financial Company Holding B.V.	Dublin (Ireland)
		F	100.00		100.00	EADS CASA France	Paris (France)

F: Fully consolidated P: Proportionate E: Equity method

KPMG

ERNST & YOUNG

Introduction

We have audited the accompanying financial statements of EADS N.V., Amsterdam ("EADS" or "the Company") for the year 2002. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Matters affecting opinion

For business reasons pertaining to Dassault Aviation's management, EADS did not obtain 2002 current figures of Dassault Aviation's financial performance. As a consequence, we have not performed the audit procedures we normally would have performed in relation with the Dassault Aviation investment, which is accounted for under the equity method. The estimated level of net income from this equity investment accounted for by EADS for the period ended 31st December 2002 represented €111 million and the estimated equity investment of EADS in Dassault Aviation as of 31st December 2002 amounted to €1,333 million.

As mentioned in Note 2 ("Summary of significant accounting policies") of the consolidated financial statements, EADS has prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standard Board, except that all development costs have been expensed as incurred. When certain criteria for asset recognition are met, IFRS require that development costs be capitalized as an intangible asset in the period in which they are incurred.

Furthermore, it is KPMG Accountants N.V.'s understanding that the following also constitutes a departure from IFRS : EADS accounts for its 37.5% interest in the MBDA joint venture using a proportionate consolidation of 50% of MBDA and accounts for a minority interest of 12.5%. IFRS require a venturer to report its effective net proportionate interest in a jointly controlled entity. The principal effects of consolidating amounts in excess of its proportionate ownership interest in MBDA are to overstate cash and cash equivalents by 10% in the 31st December 2002 consolidated balance sheet, to overstate the company's cash position (including short term securities) in 2002 cash flow statement by 3% and to overstate revenues for the Segment Defence and Civil Systems by 7%.

Opinion

In the opinion of the two auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had EADS been able to obtain current year figures and had we been able to perform the audit procedures we normally would have performed in relation to the Dassault Aviation investment and, except for the effect of the departure from IFRS with regards to development costs, and, in the opinion of KPMG Accountants N.V., except for the effect of the departure from IFRS with regard to the MBDA proportionate consolidation, the financial statements give a true and fair view of the company's financial position as of 31st December 2002 and of the result for the year then ended in accordance with IFRS and in accordance with the financial accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

The Hague, 7th March 2003
KPMG Accountants N.V.

Amsterdam, 7th March 2003
Ernst & Young Accountants

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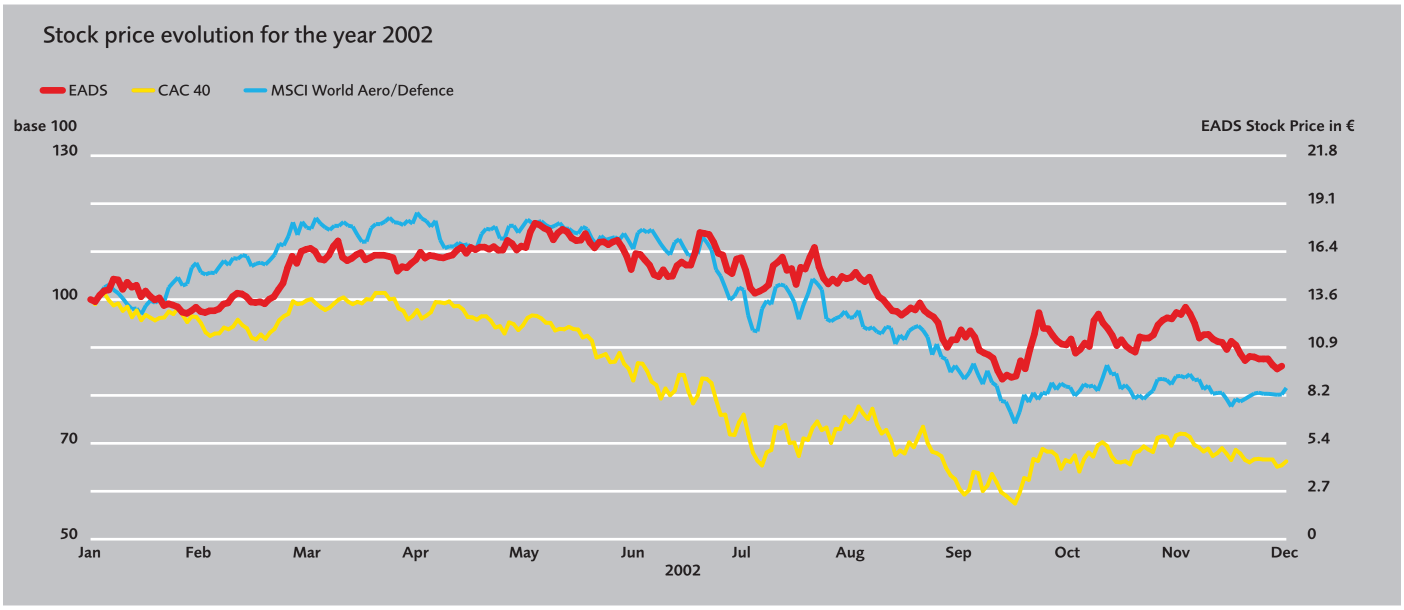
Owning EADS shares



Trading of EADS shares went through two distinct phases in 2002:

- Robust performance mirrored EADS success stories
  EADS shares soundly outperformed the CAC 40, DAX 30 and IBEX 35 indices in the first half of 2002. This strong showing reflected EADS' business achievements, renewed market confidence due to improving air travel passenger traffic statistics, and successes with defence products: the selection of EADS team "Paradigm" for Skynet 5, positive momentum for the A400M programme, the successful maiden flight of the first German series Eurofighter, and inclusion in the US Coast Guards "Deepwater" programme all contributing to raised investor awareness of the value of EADS' defence segment.

- Market forces cast cloud on share performance
  EADS' stock underwent strong pressure in the second half of the year, precipitated by US Airways' bankruptcy filing and exacerbated by the anticipated filing of United Airlines and negative news from American Airlines. This trend was amplified by the general climate of economic and political uncertainty and by further delays in the A400M and Meteor programmes which cast shadows on the budgetary backdrop of European defence programmes.

As general market uncertainties rose during the year, there was a transition from investment predicated on fundamental analysis towards more technical investing styles such as pair-trading, and increased volatility arising from short-term positions triggered by news flow. Investor focus on near term liquidity and cash, brought about by the unsure environment, did not allow prospects from the A380 "Superjumbo", the A400M military transport aircraft, Eurofighter or our helicopter programmes, Tiger or NH90, to be factored into the share price. Management expects that as the market focus returns to growth, the contribution of these long term programmes will increasingly be reflected in EADS' stock performance.

Dividend and cash distribution for 2002.
The EADS Board of Directors has decided to propose to the Annual General Meeting on 6th May 2003, to vote a dividend of €0.30 (gross amount) per share for the business year 2002 to be paid on 12th June 2003. This proposal is consistent with EADS dividend policy to pay out about 2% of EADS' market capitalisation, based on a average 2002 share price of about €14. The utmost focus of management at this time is to maintain the highest standard of financial discipline.

Global Investor Forum, Marseille 2002

Financial calendar 2003

2002 Annual results release:
10th March 2003

Global investor forum:
28th – 29th April 2003, Munich, Germany

First Quarter 2003 results release:
6th May 2003

Annual General Meeting:
6th May 2003, Amsterdam, The Netherlands

First Half 2003 results release:
28th July 2003

Third Quarter 2003 results release:
6th November 2003

Key information for Shareholders

EADS proactively offers a variety of information sources updating shareholders on its major events and progress such as the quarterly newsletter called "Aeronotes" and a monthly investor summary available on EADS website.

The EADS website, www.eads.net, also provides a wide range of information including financial topics. Shareholders can contact us everyday on our special toll-free lines. It received the Fils d'Or award in 2002 as "best Cac 40 website" from la Vie Financière.

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