# DOCUMENTATION FOR THE ANNUAL GENERAL MEETING

## on Friday, May 17, 2002 at 11:00 a.m.

at Sheraton Amsterdam Airport Hotel
Schiphol Boulevard 101,
1118 BG Amsterdam, The Netherlands.

## Contents



## AGENDA

1. Acceptance and approval of the Report of the Board of Directors;

2. Adoption of the accounts for the financial year 2001;

3. Approval of the result allocation, distribution and payment date of dividends;

4. Release from liability of the members of the Board of Directors;

5. Renewal of the appointment of the auditors for the financial year 2002;

6. Authorisation for the Board of Directors to repurchase shares of the Company.

### Shareholder Information :

(free call)

| | |
|---|---|
| France: | 0800 01 2001 |
| Germany: | 00 800 00 02 2002 |
| Spain: | 00 800 00 02 2002 |

@mail box : comfi@eads.net

EADS
European Aeronautic Defence and Space Company

# TEXT OF THE RESOLUTIONS PROPOSED BY THE BOARD OF DIRECTORS

## FIRST RESOLUTION

### Report of the Board of Directors

RESOLVED THAT the Report of the Board of Directors as submitted to the Annual General Meeting of the Shareholders be and hereby is accepted and approved.

## SECOND RESOLUTION

### Adoption of the accounts for the financial year 2001

RESOLVED THAT the audited annual accounts for the accounting period from January 1, 2001 and ended December 31, 2001, as submitted to the Annual General Meeting of the Shareholders by the Board of Directors, be and hereby are adopted.

## THIRD RESOLUTION

### Approval of profits, distribution and payment date of dividends proposed by the Board of Directors

RESOLVED THAT from net profits of € 1,372 million, as shown in the profit and loss statement for the financial year 2001, the amount of € 967 million is attributed to reserves and the remainder, being € 405 million shall be distributed to shareholders as a dividend of a gross amount of € 0.50 per share on June 28, 2002.

## FOURTH RESOLUTION

### Release from liability of the members of the Board of Directors for their activity during the financial year 2001

RESOLVED THAT the members of the Board of Directors be and hereby are granted a release from liability for the performance of their duties in the financial year 2001, to the extent that their activity has been reflected in the annual accounts for the financial year 2001.

## FIFTH RESOLUTION

### Renewal of the appointment of the auditors for the financial year 2002

RESOLVED THAT the Company's auditors for the accounting period being the financial year 2002 shall be Arthur Andersen, whose registered office is at Prof. W. H. Keesomlaan 8, 1183 DJ Amstelveen, The Netherlands, and KPMG Accountants N.V., whose registered office is at Churchillplein 6, 2517 JW The Hague, The Netherlands.

## SIXTH RESOLUTION

### Authorisation for the Board of Directors to repurchase shares of the Company

RESOLVED THAT the Board of Directors be and hereby is authorised, for a period of 18 months from the date of this meeting, to repurchase shares of the Company, on any stock exchange or otherwise, within the limit of 5% of the Company's issued share capital and at a price not less than nominal value and not more than 110% of the price at which the Company's shares were quoted at close of business on any stock exchange on the trading day before such repurchase. This authorisation supersedes and replaces the authorisation given by the Annual General Meeting of May 10, 2001 in its seventh resolution.

# REPORT OF THE BOARD OF DIRECTORS

Dear ladies and gentlemen, dear shareholders,

We convene today this Annual General Meeting of **European Aeronautic Defence and Space Company EADS N.V.** (references herein to "EADS" or the "Company" or the "Group" include EADS and its subsidiaries) in order to:

- on the one hand, inform you on the results of the Company and its subsidiaries for the year 2001 and to submit for your approval the accounts for this period; and

- on the other hand, to seek renewal of the financial authorisation that you granted to the Board of Directors (the **"Board"**) last year.

Included in the bundle of documents that you are provided with is the "Documentation for the Annual General Meeting", which comprises all the reports to be submitted to you, namely this report of the Board and the report of the statutory auditors, Arthur Andersen and KPMG Accountants N.V.. These documents also include the statutory accounts and consolidated financial statements for the year 2001, which were accepted by the Board on March 15, 2002 following the recommendation of the Audit Committee, and the text of the resolutions that will be submitted for your approval at the end of this Annual General Meeting.

This report is limited to fundamental issues. Consequently, the reader should refer to the text of the Reference Document ("Document de Référence"), a copy of which is filed with the Paris, Frankfurt and Spanish Stock Exchange Authorities, and/or to the Annual Report, should he or she require further information.

## GENERAL OVERVIEW

With a workforce of 102,967 employees (at year-end) and revenues of € 30.8 billion in 2001, EADS is Europe's premier aerospace and defence company and the second largest aerospace and defence company in the world. In terms of market shares, 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 2001, it generated 80% of its sales in the civil sector and 20% in the military sector.

The creation of EADS in July 2000 marked a critical step in the consolidation of the European aerospace and defence industries by combining the businesses previously operated by Aerospatiale Matra (**"ASM"**), DaimlerChrysler Aerospace AG (**"Dasa"**) and Construcciones Aeronauticas SA (**"CASA"**).

The above combination which set up EADS was completed within the framework of an initial public offering of EADS shares to institutional investors, the public and qualifying employees of the EADS group. As a result since July 10, 2000, EADS' shares are listed on the Paris, Frankfurt and Spanish Stock Exchanges and are included in the French CAC 40 index.

EADS has organised its businesses into five divisions: (i) Airbus, (ii) Military Transport Aircraft, (iii) Aeronautics (other than Airbus and Military Transport Aircraft), (iv) Defence and Civil Systems and (v) Space. The combination of these businesses has established EADS as a recognised leader across most sectors of its operations, consolidating its control in such areas of longstanding collaboration as Airbus, Eurocopter, Eurofighter, Astrium, MBDA and Arianespace.

## MAIN EVENTS FOR 2001

The year, of course, was dominated by the dramatic events of September 11 and the subsequent conflict in Afghanistan. Inevitably, these have had an important impact on EADS' various businesses, and there is no doubt whatsoever that there are major challenges to face in the year ahead. However, it remains a fact that EADS has a very strong portfolio of products – in civil and defence - which results in a robust competitive position in world markets.
Moreover, immediate actions have been taken by the management after these dramatic events in order to preserve cash and profitability.

In 2001, EADS has made substantial progress with the integration of the Group's operations. More than 600 projects to create value through inter-company synergies and performance improvements and the more efficient use of existing know-how and capital investment are under way, and results of € 100 million of value creation are well in excess of expectations of € 60 million.
Synergies achieved through Group sourcing deserve special mention, and other initiatives include the exchange of best practices, technologies and knowledge throughout the Group in the areas of R&T, manufacturing, engineering and product support.
In 2001, EADS has outperformed all financial targets; revenues grew by 27%, ahead of the 20% growth target and EBIT pre-goodwill amortisation and exceptionals has increased by 21%, surpassing the 15% initial growth target.

Thus, EADS, as a leader in the aerospace and defence industries, continued to drive further integration in 2001 – most significantly we established Airbus as a fully-integrated business and created MBDA, the world's n° 2 missile systems company.

In addition, Airbus in 2001 secured orders for aircraft representing a market share of 61 % in value. At December 31, 2001, Airbus had 1,575 aircraft in order book, the world largest order book of commercial aircraft.
It delivered 325 aircraft in 2001 against 311 in 2000.

The launch of the A380 met commercial success with 85 firm orders and 12 commitments coming from 9 different customers confirming our market vision was right.

Our strategy to develop military business is on its way, with the ramp up of the production of the Eurofighter, with major orders in military helicopters (Tiger and NH90) and with the signature to be effective in 2002 of the A400M programme representing over €18 billion of future revenues. We expect to grow our defence business from € 6.1 billion in 2001 to over € 9 billion in 2004 representing an increase of 50%.

## SHAREHOLDING AND STOCK PRICE EVOLUTION

As of December 31, 2001, EADS' share capital was set up at € 809,175,561 divided into 809,175,561 shares of € 1 nominal value each.

On July 12, September 18 and October 12, 2001, the Board, using the authorisations given to it by the shareholders' meeting of May 10, 2001, approved:

- the granting of stock options for subscription of 8,524,250 shares of the Company;

- the authorisation given to the Chief Executive Officers to set up and to implement a share buy-back programme for the repurchase of up to 10,500,000 shares;

- the offering of up to 2,017,894 shares to eligible employees of EADS within the framework of an employee share ownership plan (**"ESOP"**). As a result, on December 5, 2001, 2,017,894 shares (i.e. 0.2% of the issued share capital) were issued.

Currently, the shareholding of EADS is made up as follows:

- 30.2% of the share capital owned indirectly by DaimlerChrysler AG,

- 30.2% of the share capital owned by Société de Gestion de l'Aéronautique, de la Défense et de l'Espace (**"SOGEADE"**), a French partnership limited by shares which share capital is held 50 % by Société de Gestion de Participations Aéronautiques (**"SOGEPA"** - a French State holding company) and 50 % by Lagardère SCA acting through a French holding company controlled by the latter at 74 %, and which remaining shareholding of 26 % is held by first rank French financial institutions,

- 5.5 % of the share capital owned by Sociedad Estatal de Participaciones Industriales (**"SEPI"** - a Spanish state holding company),

- 31 % of the share capital owned by the Public (including EADS employees).

- 2.8% and 0.3% of the share capital owned respectively indirectly by DaimlerChrysler AG and directly by the French State.

By application of the principle of parity, DaimlerChrysler AG and SOGEADE jointly exercise their shareholders rights in EADS through a Dutch law contractual partnership with SEPI.

During the year under review, the EADS share price went through four consecutive main phases.
From January to June 2001, EADS shares traded in a range of €20 to €23. This was in fact a strong performance at a time when the major stock indices were moving significantly downward.

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

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

The fourth phase was triggered by the events of September 11 in which the financial markets became extremely pessimistic about the economy and airline traffic. All markets suffered, but EADS stock like other companies of the aerospace sector were among the worst-hit, following the halting of air traffic in the US and the unprecedented 30%-40% air traffic fall in September and October 2001.

Between September 7 and September 21, our shares lost half their value, reaching an all time low of € 9.14. This was followed by a gradual recovery, up to € 13/€ 14 at the end of 2001, implying that catastrophic scenario was now behind us.

This level represents a low price compared to historical high levels but represents still a better performance than stock market indexes (CAC 40 namely).

The average value of trading for the year was around 1.7 million shares daily exchanged.

The continuing recovery of the economy and airline traffic at the beginning of 2002 as well as defence growth opportunities (such as Paradigm and A400M) have already started to support EADS stock price. Moreover, Airbus has confirmed deliveries around 300 aircraft in 2002, which is close to the 2001 level (325). The medium and long term fundamentals of the industry remain solid with an underlying 4.9%* average air traffic growth and good opportunities for aircraft replacement.

As of March 15, 2002, EADS stock price had increased to € 16.67 representing one of the best market performances since the beginning of year 2002.

* Airbus global forecast 2000

## CORPORATE GOVERNANCE

As a reminder, the Board is responsible for the affairs of EADS and as a single tier structure, combining both executive and non-executive members, it is the company's highest decision-making body after the shareholders meeting. The role of the Board is to ensure that the Company is operated to maximise shareholder value in accordance with the law and the established rules of Corporate Governance, while taking into account the maintenance of good relationships with the Company's employees and customers.

The Audit Committee and the Personnel Committee, set up by the Board in 2000 from among its members, both met twice in the year 2001. The Audit Committee reviewed the 2000 pro-forma results as well as the half-year results 2001. The Personnel Committee discussed the bonus payments for 2000, as well as the remuneration policy and stock-option plan for 2001.

The Board met six times in the year 2001. Topics discussed and operations authorised at these meetings included EADS strategy, the integration process, major business issues, major investments projects such as the creation of the Airbus integrated company, the formation of MBDA and the development and the production phase of A400M programme, and the Group's financial results and forecasts. During this period, the Board was regularly informed through business reports from the Chief Executive Officers, rolling forecasts, strategic and operational plans.

The European Work Council, which was set up by EADS in 2000 with employee representatives to promote social dialogue and information flow throughout the Group, met three times in the year 2001 to review the Group structure and its evolution, the activity of the divisions and business units as well as the harmonisation of the profit sharing at Group level.

## EADS GROUP BUSINESS

The pro forma figures included herein for 2000 give effect to the EADS Merger as if it had occurred on January 1, 2000 they do not include all transactions that occured in 2001, namely the Airbus SAS creation and its first time 100% consolidation.

EADS booked new orders worth € 60.2 billion in 2001, which represent an increase of 23% compared to the pro forma level of € 49.1 billion in 2000 raising the order book to € 183,256 million at December 31, 2001, which is 39% higher than the level of year end 2000 and corresponding to more than six years of revenues.

***Table 1 – Order intake and order book by division (in millions of €)***

| | Order intake | | Order book | |
|---|---|---|---|---|
| By division | 2001 | 2000 pro forma | 2001 | 2000 |
| Airbus* | 50,279 | 34,158 | 156,075 | 104,387 |
| Military Transport Aircraft | 993 | 493 | 1,320 | 873 |
| Aeronautics | 5,315 | 8,322 | 13,722 | 13,067 |
| Defence & Civil Systems | 3,081 | 3,857 | 9,094 | 9,722 |
| Space | 1,333 | 3,024 | 3,796 | 4,826 |
| Eliminations and other | (793) | (775) | (751) | (1,001) |
| **Total EADS Group** | **60,208** | 49,079 | **183,256** | 131,874 |

*on the basis of catalog prices; from 2001 Airbus consolidation at 100%

**Airbus** had another excellent year with the 274 net orders received in 2001 representing a 50.2% worldwide market share in terms of aircraft numbers and even a 61% net market share in value terms on the basis of catalog prices.

The order book is representing for Airbus a value of more than € 156 billion. Airbus order intake reached € 50 billion in 2001 increasing 47% compared to € 34 billion (80% consolidated) in 2000.

Airbus was successful to place orders for the A380 even after the dramatic events of 11 September. In total, Airbus received 85 firm orders (in the order book) and 12 commitments.

The **Military Transport Aircraft** Division recorded € 993 million order intake in 2001, which represents nearly twice the revenue level, resulting in an increased order book to € 1.3 billion. The A400M contract has been signed in December 2001 by eight European nations for a total of 196 aircraft valued at € 18 billion. The final approval of the German Government was still pending in 2001 and the order has therefore not been included in the year-end 2001 order book. It is expected to enter in the order book in 2002. This programme will contribute to this division and EADS' strong growth in the future.

Order intake at the **Aeronautics** Division reached to € 5.3 billion. The order book reached € 13,7 billion at year-end, representing more than two years of activity.

With 375 machines ordered in 2001 Eurocopter is confirming its position as number one worldwide. In particular, Eurocopter continued its success with a 57% market share in civil helicopters worldwide deliveries. On export markets for military helicopters NH90 and Tiger, Eurocopter was selected against competition for contracts worth € 1.6 billion in total and has now more than 500 military helicopters in order book.

As anticipated, the **Defence & Civil Systems** Division's order intake decreased to € 3.1 billion in 2001 after the very high levels of past years and year-end order book reached € 9.1 billion, securing profitable growth for the years to come.

**Space** Division order intake amounted to € 1.3 billion taking into account a depressed telecommunications satellites business and heavy competition. Year-end order book reached € 3.8 billion, which is about one and a half-year of activity.

## FINANCIAL HIGHLIGHTS

### 1 - EADS Pro-forma Consolidated Financial Statements

The following discussion is based upon the audited consolidated financial statements of EADS for 2001 and the unaudited pro forma consolidated financial statements of EADS for 2000.

The unaudited pro forma consolidated financial information of EADS for 2000 included herein is provided for illustrative purposes only. These pro forma consolidated figures of EADS provide information as if EADS had already existed as of January 1, 2000 and are meant to reflect the development of EADS business as if it had taken place in 2000. The 2000 pro-forma financial statements refer to the scope of consolidation that resulted from the EADS merger in 2000; as such, they do not reflect changes in consolidated entities or accounting methods that occurred in 2001 (e.g., Airbus 100% consolidation). Consequently, the scope of consolidation referred to in the 2000 pro forma financial statements differs significantly from that referred to in the 2001 financial statements.

The accounting principles applied by EADS are **"IAS"** (International Accounting Standards), with the exception that EADS expenses all development costs as incurred. The consolidated financial statements include all material subsidiaries under the control of EADS. Significant investments in which EADS has a 20% to 50% ownership are generally accounted for using the equity method. For investments in material joint ventures, EADS uses the proportionate method of consolidation as stipulated under IAS, with the exception that EADS consolidates the MBDA joint venture proportionately at a rate of 50% including minority interests of 12.5%. This reflects the substance of the control of EADS on MBDA. Other investments are accounted for at fair value.

## Revenues

EADS revenues reached € 30.8 billion in 2001, an increase of 27.3 % compared with the 2000 pro forma revenues of € 24.2 billion. Excluding the impact of Airbus first time full consolidation, this represents an increase of 10%.

***Table 2 - Revenues (in millions of €)***

| | Revenues | |
|---|---|---|
| By Division | 2001 | 2000 pro forma |
| Airbus* | 20,549 | 14,856 |
| Military Transport Aircraft | 547 | 316 |
| Aeronautics | 5,065 | 4,704 |
| Defence & Civil Systems | 3,345 | 2,909 |
| Space | 2,439 | 2,535 |
| Elimination & Others | (1,147) | (1,112) |
| **Total EADS Group** | **30,798** | **24,208** |

*Airbus 100% consolidated from 2001 vs. 80 % in 2000

Consolidated revenues of **Airbus** increased by 38.3% from € 14,856 million in 2000 to € 20,549 million in 2001, mainly due to the effects of the Airbus consolidation at 100%, but also as a consequence of increases in aircraft deliveries from 311 aircraft in 2000 to 325 aircraft in 2001. Revenues from 2000 to 2001 were also slightly positively affected by the strengthening of the dollar against the Euro.

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

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

Consolidated revenues in the **Defence and Civil Systems** Division increased by 15% from € 2,909 million in 2000 to € 3,345 million in 2001. The increase related primarily to the effects of the ramp up of missiles programmes and growth in the secured telecom business.

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

## EBIT

EADS uses EBIT* as a key indicator of its economic performance. The term "exceptional" 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.

***Table 3 – EBIT* before goodwill amortisation and exceptionals (in millions of €)***

| By Division | 2001 | 2000 pro forma |
|---|---|---|
| Airbus | 1,655 | 1,412 |
| Military Transport Aircraft | 1 | (63) |
| Aeronautics | 308 | 296 |
| Defence & Civil Systems | (79) | (110) |
| Space | (222) | 67 |
| Elimination & Others | 31 | (203) |
| **Total EADS Group** | **1,694** | **1,399** |

*Airbus 100% consolidated from 2001

Consolidated EBIT* of **Airbus** increased by 17.2% from € 1,412 million in 2000 to € 1,655 million in 2001. This increase was principally a consequence of the Airbus 100% first time consolidation, as well as an increase in aircraft deliveries, productivity improvements and a slight positive impact of the dollar-euro exchange rate. Increased R&D expenses (mainly on A380 and A340-500-600 programmes), additional provisions related to aircraft sales financing exposure and costs associated with some restructuring partially offset the increase.

In the **MTA** Division, consolidated EBIT* improved from a loss of € 63 million in 2000 to a gain of € 1 million in 2001, principally as a result of a more favourable product mix and increased deliveries.

Consolidated EBIT* in the **Aeronautics** Division increased by 4.1% from € 296 million in 2000 to € 308 million in 2001, mainly due to increased deliveries of helicopters.

In the **Defence and Civil Systems** Division, consolidated EBIT* improved from a loss of € 110 million in 2000 to a loss of € 79 million in 2001, mainly due to improved revenues and margins, as well as the positive impact of previous restructuring on the Systems & Defence Electronics business. The improvement was offset in part by the impact from January through September 2001 of negative performance of the civil telecommunications joint ventures with Nortel and charges for ongoing restructuring.

Consolidated EBIT* of the **Space** Division decreased from a profit of € 67 million in 2000 to a loss of € 222 million in 2001. The decrease is primarily attributable to write-downs of investments in Nahuelsat, Starsem, Arianespace and Spacehab following a critical reassessment of the value of these investments. Reduced revenues, continued restructuring costs and new provisions for restructuring associated with EADS Launch Vehicles, contributed to the decrease.
The total of restructuring and assets write down charges, included in EBIT* for Space Division in 2001 amounts to € 280 million.

*pre-goodwill amortisation and exceptionals

***Table 4 - Reconciliation of EBIT and EBIT before goodwill amortisation and exceptionals***

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

***Table 5 - Income Statements***

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

## Balance Sheet

Stockholders' equity decreased to € 9,877 million in 2001, compared to € 10,250 million in 2000 pro-forma, mainly resulting from the net income (€ 1,372 million), more than offset by additional provisions on financial instruments according to IAS 39 (€ -1,225 million) and a dividend of € 404 million paid in 2001 by EADS N.V. (see table 7 below).

## Net Cash

Cash flows provided by operating activities was up to € 2,656 million demonstrating the improvement in operating performance. Cash flows used in investing activities of € 2,272 million were principally due to continued capital expenditures associated with modernising and enlarging technical plant and equipment, sales financing activities and new investments in companies.

Cash flows used in financing activities of € 677 million were principally related to dividend payments and a change in financial liabilities.

## 2 - EADS Audited Consolidated Financial Statements

The year 2001 figures represent the first full year of operations of EADS. For 2000, as the creation of EADS was treated as business combination with Aerospatiale Matra (ASM) being the purchaser of Dasa and Casa, the figures before July 2000 include only the operations of the former ASM. 1999 figures only relate to the operations of the former ASM, too.

The accounting principles applied are the same as mentioned above.

***Table 6 - Audited consolidated income statement***

| in millions of € | 2001 | 2000 | 1999 |
|---|---|---|---|
| **Revenues** | **30,798** | **19,427** | **12,236** |
| Cost of sales | (25,235) | (16,004) | (9,624) |
| **Gross margin** | **5,563** | **3,423** | **2,612** |
| Selling, administrative and other expenses | (2,561) | (2,144) | (1,358) |
| Research and development expenses | (2,046) | (1,077) | (689) |
| Other income | 3,024 | 251 | 312 |
| Amortisation of goodwill and related impairment losses | (1,466) | (277) | (127) |
| **Income before financial result, income taxes and minority interests** | **2,514** | **176** | **750** |
| Financial result, net | (513) | (1,320) | (1,724) |
| **Profit (loss) before income taxes and minority interests** | **2,001** | **(1,144)** | **(974)** |
| Income taxes | (646) | 264 | 352 |
| Minority interests | 17 | (23) | (22) |
| **Net income (loss)** | **1,372** | **(903)** | **(644)** |

EADS
European Aeronautic Defence and Space Company

*Table 7 – Audited consolidated balance sheet*

| in millions of € | 2001 | 2000 |
|---|---|---|
| Fixed assets | 25,364 | 20,894 |
| Non-fixed assets | 18,318 | 16,745 |
| Deferred taxes and prepaid expenses | 5,033 | 3,805 |
| **Total Assets** | **48,715** | **41,444** |
| | | |
| Stockholders' equity | 9,877 | 10,250 |
| Minority interests | 559 | 221 |
| Provisions | 11,918 | 8,684 |
| Liabilities | 22,597 | 18,247 |
| Deferred taxes and deferred income | 3,764 | 4,042 |
| **Total liabilities and equity** | **48,715** | **41,444** |

## 3 - EADS N.V. Statutory Accounts

*Table 8 - Statutory balance sheet*

| in millions of € | 2001 | 2000 |
|---|---|---|
| Goodwill | 5,068 | 5,695 |
| Financial assets | 2,232 | 3,130 |
| **Fixed assets** | **7,300** | **8,825** |
| Receivables and other assets | 2,825 | 254 |
| Securities | 5,047 | 2,482 |
| Cash and cash equivalents | 828 | 2,081 |
| **Non-fixed assets** | **8,700** | **4,817** |
| Deferred taxes | 22 | 32 |
| **Total Assets** | **16,022** | **13,674** |
| | | |
| Capital stock | 809 | 807 |
| General reserves | 9,068 | 9,443 |
| **Stockholders' equity** | **9,877** | **10,250** |
| Other liabilities | 6,145 | 3,424 |
| **Liabilities** | **6,145** | **3,424** |
| **Total liabilities and stockholders' equity** | **16,022** | **13,674** |

*Table 9 - Statutory income statement*

| in millions of € | 2001 | 2000 |
|---|---|---|
| Income from investments | 1,807 | (401) |
| Other results | (435) | (149) |
| **Net result** | **1,372** | **(550)** |

## OUTLOOK 2002

The Management has taken immediate actions after the dramatic events of 2001 to stabilise deliveries in Airbus at a level of around 300 aircraft in 2002 (compared to 325 in 2001) and implemented cost saving measures to preserve cash and profitability. In the same time we continue to develop our defence business which will contribute significantly in the future to the growth of revenues and EBIT.

In 2002 our revenues are expected to remain nearly stable with a slight decrease of around 2% in constant $, due to the expected decrease in Airbus deliveries almost offset by growth in all other activities.
EADS Management expects to maintain EBIT margin pre R&D at the same level as 2001 (12%), despite lower Airbus deliveries, and mostly thanks to cost savings plans.

EADS will increase its R&D spending in 2002 and 2003 compared to 2001, to develop important value creation programmes such as A380. After this increase of R&D expenses and including market risks assessment, management expects EBIT pre-goodwill amortisation and exceptionals to be at about € 1.2 billion in 2002.

Despite the anticipated increase in capital expenditures due to the A380 development continuation, EADS expects Free Cash Flow to remain positive before customer financing cash impact.

EADS' order book is expected to grow in 2002, due to programme orders such as A400M. With this large order book EADS will enhance an already excellent visibility to its shareholders.

## EADS STRATEGIC CHALLENGES

In order to become a global aerospace and defence player EADS has set itself the following strategic priorities:

- To drive forward further consolidation within the aerospace and defence industry. EADS considers this consolidation on two levels:
  - European consolidation. After the creation of the integrated Airbus Company and MBDA, EADS will further consolidate within the areas of space, military aircraft and defence electronics.
  - Transatlantic and global co-operation. EADS will pursue further partnerships with US companies and other aerospace and defence companies in important key-regions.

- To pursue new defence opportunities, particularly in the domains of Intelligence (C4ISR), Deterrence & Power projection and Survivability & Homeland Security, EADS is strongly focussing on an access to the US defence budgets. Besides the US, EADS is also focussing on other strategically important regions such as Asia and Latin America.

In addition, by growing in defence, EADS will achieve a balance in its product portfolio between civilian and governmental businesses and therefore will be less exposed to the cyclical effects of the commercial markets. A balanced EADS portfolio could generate new businesses coming from transversal opportunities - such as mission aircraft– but also benefit from dual technologies.

## Airbus

Airbus has taken its measures after September 11 for cost reduction, cash protection and R&D expenses, while continuing the development of A380, as this product is key to Airbus' future market position and profitability. In the commercial upturn to come Airbus will continue to strengthen its financial position in order to meet customers' expectations with a complete and young range of efficient products.

## Military Transport Aircraft

In 2002 the Division expects to start with the development work on A400M which will represent a total contract of € 18 billion with over € 2 billion of revenues expected to be already generated between 2002 and 2004.

## Aeronautics

The Aeronautics Division was very successful in 2001. The Division will grow its defence business strongly: large military programmes, among which Euro fighter, are going into production and Eurocopter is growing its presence on military markets with products such as NH-90 and Tiger while continuing to be world leader on commercial helicopters.

## Defence and Civil Systems

In 2001 Defence and Civil Systems put its new organisational structure into practice in order to gain a broader market access by establishing transatlantic programmes related to NATO's Defence Capability Initiative. Thereby the Division focuses on Homeland security issues (including Ballistic Missile Defence), commercial air transport security –together with Airbus- and mission aircraft for intelligence and surveillance and is now ramping up production of new state-of-the art generation of missiles systems such as Storm Shadow/Scalp EG and Aster.
The creation of MBDA was effective in December 2001 making it the second largest missiles systems manufacturer in the world with a very high order book and improved profitability outlook coming from the start of production of some major programmes.
The telecom business strategy of EADS is focused on military and security telecom which is strengthened by Cogent acquisition; on the civil telecom side, we are disengaging influence in our two joint-ventures with Nortel.

## Space

The Space Division is going through a comprehensive reorganisation in order to focus on customer satisfaction, to streamline the organisation, to increase EADS space industry integration.

Space Services are a key element in large civil and defence systems like Air Traffic Management, Missile Defence, Security, or Communication Systems for the armies. It is EADS willingness to be an active player in this field to offer a full service to the customer.
Our recent successes (Skynet 5, Envisat, Ariane 5) plus potential Galileo project show our competitive position. These commercial successes and the current reorganisation will secure future profitability improvement.

## CONCLUSION

More than one year after the merger, EADS is on the right track to drive forward further consolidation in aerospace and defence, to have a complementary portfolio of products and services, and to grow its defence businesses. With these strategic objectives, EADS is well prepared to face the current market challenges of becoming a global player.

The information contained in the Auditors' Report and in the Board Report and its appendices is accurate and complete and should enable you to form an opinion on the situation of the Company and the operations that are submitted to you for approval.

We propose that the Annual General Meeting approves the audited annual accounts for 2001 and decides that from the 2001 net profits of € 1,372 million the amount of € 967 million will be attributed to reserves and the remainder, being € 405 million, will be distributed to shareholders in the form of payment of a gross amount of € 0.50 per share on June 28, 2002.

Furthermore, we suggest that the Company's auditors for the financial year 2002 should be Arthur Andersen and KPMG Accountants N.V.

We also recommend that shareholders discharge the members of the Board of their responsibility for the conduct of the business.

Finally, we propose to the Annual General Meeting to approve the renewal of the authorisation to the Board to repurchase shares of the Company within the limit of 5% of the Company's issued share capital for a period of 18 months from the date of this meeting. The above authorisation will supersede and replace the one granted by the Annual General Meeting on May 10, 2001, being reminded that as of March 15, 2002, no shares have been yet bought back, but the buy-back programme is intended to start by the end of March.

The resolutions that shall be submitted to your vote strictly conform to the terms of the above reports and are in our opinion in the interest of the Company and the development of its activities.
Consequently, we invite you to adopt the resolutions and thank you for the trust you have repeatedly shown us at the key stages of the creation of EADS.

Amsterdam, March 15, 2002

**The Board of Directors**

EADS
European Aeronautic Defence and Space Company

# EADS N.V. CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENTS FOR THE YEARS 2001, 2000 AND 1999

| (in millions of €) | Note | 2001 | 2000 | 1999 |
|---|---|---|---|---|
| Revenues | 5, 23 | 30,798 | 19,427 | 12,236 |
| Cost of sales | 6 | (25,235) | (16,004) | (9,624) |
| **Gross margin** | | **5,563** | **3,423** | **2,612** |
| Selling, administrative and other expenses | 6 | (2,561) | (2,144) | (1,358) |
| Research and development expenses | | (2,046) | (1,077) | (689) |
| Other income | 7 | 3,024 | 251 | 312 |
| Amortisation of goodwill and related impairment losses | 10 | (1,466) | (277) | (127) |
| **Income before financial result income taxes and minority interests** | | **2,514** | **176** | **750** |
| Financial result, net | 8 | (513) | (1,320) | (1,724) |
| **Profit (loss) before income taxes and minority interests** | | **2,001** | **(1,144)** | **(974)** |
| Income taxes | 9 | (646) | 264 | 352 |
| Minority interests | | 17 | (23) | (22) |
| **Net income (loss)** | | **1,372** | **(903)** | **(644)** |
| **Earnings per share** | | **€** | **€** | **€** |
| Basic and diluted | 27 | 1.70 | (2.34) | n/a |
| **Dividends per share (2001: proposal)** | **16** | **0.50** | **0.50** | **n/a** |

Since EADS did not exist in the first half of 2000, earnings per share are based on the number of shares outstanding and stock options granted as of December 31, 2000.

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

# CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2001 AND 2000

(in millions of €)

| Assets | Note | 2001 | 2000 |
|---|---|---|---|
| Intangible assets | 10 | 10,588 | 8,165 |
| Property, plant and equipment | 10 | 10,050 | 8,120 |
| Investments and long-term financial assets | 11 | 4,726 | 4,609 |
| **Fixed assets** | | **25,364** | **20,894** |
| Inventories | 12 | 2,469 | 2,081 |
| Trade receivables | 13 | 5,183 | 4,118 |
| Other receivables and other assets | 14 | 2,633 | 2,624 |
| Securities | 15 | 5,341 | 4,682 |
| Cash and cash equivalents | | 2,692 | 3,240 |
| **Non-fixed assets** | | **18,318** | **16,745** |
| **Deferred taxes** | **9** | **4,288** | **3,151** |
| **Prepaid expenses** | | **745** | **654** |
| **Total Assets** | | **48,715** | **41,444** |

| Liabilities and stockholders'equity | Note | 2001 | 2000 |
|---|---|---|---|
| Capital stock | | 809 | 807 |
| Reserves | | 10,346 | 9,359 |
| Accumulated other comprehensive income | | (1,278) | 84 |
| **Stockholders'equity** | **16** | **9,877** | **10,250** |
| **Minority interests** | | **559** | **221** |
| **Provisions** | **17** | **11,918** | **8,684** |
| Financial liabilities | 18 | 6,500 | 5,779 |
| Trade liabilities | 19 | 5,466 | 4,268 |
| Other liabilities | 19 | 10,631 | 8,200 |
| **Liabilities** | | **22,597** | **18,247** |
| **Deferred taxes** | **9** | **806** | **1,128** |
| **Deferred income** | | **2,958** | **2,914** |
| **Total liabilities and equity** | | **48,715** | **41,444** |

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

EADS
European Aeronautic Defence and Space Company

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS 2001, 2000, 1999

| (in millions of €) | 2001 | 2000 |
|---|---|---|
| Net income (loss) | 1,372 | (903) |
| Income applicable to minority interests | (17) | 23 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortisation of fixed assets | 3,560 | 1,121 |
| Valuation adjustments | 493 | 483 |
| Dilution gain Airbus/MBDA | (2,817) | 0 |
| Change in deferred taxes | 109 | (694) |
| Results of fixed assets/businesses | (71) | 48 |
| Change in accrued liabilities | 47 | 1,019 |
| Result of companies accounted for by the equity method | (22) | (110) |
| Change in other operating assets and liabilities: | 2 | 1,594 |
| - Inventories, net | (655) | (574) |
| - Trade receivables | (894) | 53 |
| - Trade liabilities | 766 | 661 |
| - Other assets and liabilities | 785 | 1,454 |
| **Cash provided by operating activities** | **2,656** | **2,581** |
| **Investments:** | | |
| - Purchases of fixed assets and increase in equipment of leased assets | (2,196) | (879) |
| - Payments for investments in financial assets and acquisitions of subsidiaries | (1,096) | (549) |
| - Proceeds from disposal of fixed assets and decrease in equipment of leased assets | 402 | 233 |
| - Proceeds from disposals of financial assets and subsidiaries | 850 | 254 |
| - Change in finance lease receivables | 138 | (118) |
| Acquisitions of securities | (390) | 0 |
| Cash from changes in consolidation | 20 | 2,671 |
| **Cash used for investing activities** | **(2,272)** | **1,612** |
| Change in financial liabilities | (465) | (103) |
| Cash contribution minority | 253 | 0 |
| Dividends paid | (404) | (31) |
| Repayments to minorities | (52) | 0 |
| Capital increase | 21 | 1,540 |
| Others | (30) | (16) |
| **Cash used for (provided by) financing activities** | **(677)** | **1,390** |
| Effect of foreign exchange rate changes on cash and cash equivalents | 14 | 6 |
| **Net increase (decrease) in cash and cash equivalents** | **(279)** | **5,589** |
| **Cash and cash equivalents** | | |
| **Cash at beginning of period** | **7,760** | **2,333** |
| **Cash at end of period** | **7,481** | **7,760** |
| **Additional securities medium-term** | **552** | **162** |
| **Cash and securities as stated in Balance Sheet** | **8,033** | **7,922** |

Included in cash and cash equivalents are M € 386 representing the amount Airbus has invested at BAES. Additionally, included is M € 414, which represents EADS's share of MBDA cash and cash equivalents invested at BAES.

The following represents supplemental information with respect to cash flows from operating activities:

| (in millions of €) | 2001 | 2000 |
|---|---|---|
| Interest paid | (335) | (239) |
| Income taxes paid | (520) | (206) |
| Dividends paid | 404 | 31 |

Interest received for 2001 amounts to M € 506, dividends received amount to M € 36.
Details on acquisitions and disposals of subsidiaries and business units:

| (in millions of €) | 2001 |
|---|---|
| Total purchase (disposal) price, aggregated | 415 |
| thereof discharged by cash and cash equivalents | 415 |
| Cash and cash equivalents of subsidiaries acquired or disposed of | 13 |

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS 2001, 2000, 1999 (continued)

| (in millions of €) | 1999 |
|---|---|
| Net income (loss) before absorb agreement | (644) |
| Income applicable to minority interests | 22 |
| Adjustments to reconcile net income to cash provided by operating activities: | |
| Depreciation and amortisation of fixed assets | 523 |
| Valuation adjustments to inventories | 0 |
| Change in deferred taxes | (423) |
| Results on disposals of fixed assets/businesses | (267) |
| Change in provisions | 316 |
| Result of companies accounted for by the equity method | (56) |
| Change in other operating assets and liabilities: | 1,309 |
| **Cash provided by operating activities** | **780** |
| **Investments:** | |
| Purchases of fixed assets and increase in equipment of leased assets | (1,092) |
| Proceeds from disposal of fixed assets/businesses | 833 |
| Change in cash from consolidation | 35 |
| **Cash provided by (used for) investing activities** | **(224)** |
| Change in financial liabilities | 329 |
| Other | (17) |
| **Cash provided by (used for) financing activities** | **312** |
| Effect of foreign exchange rate changes on cash and cash equivalents | (27) |
| **Increase (decrease) in cash and cash equivalents** | **841** |
| **Cash and cash equivalents** | |
| **At beginning of period** | **1,492** |
| **At end of period** | **2,333** |
| **Securities** | **1,574** |
| **Cash** | **759** |

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

The following represents supplemental information with respect to cash flows from operating activities:

| (in millions of €) | 1999 |
|---|---|
| Interest paid | 121 |
| Income taxes paid | 4 |

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS 2001, 2000 AND 1999

| (in millions of €) | Note | Capital stock | Reserves | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 1999** | | **703** | **(1,131)** | **82** | **(346)** |
| Distribution of the Thomson-CSF shares | | | (203) | | (203) |
| Dassault Aviation shares contribution by French State (fair value) | | 141 | 842 | | 983 |
| MHT shares contribution by Lagardère SCA (fair value) | | 387 | 2,128 | | 2,515 |
| Net loss | | | (644) | | (644) |
| Other comprehensive income | | | | 5 | 5 |
| **Balance at December 31, 1999** | | **1,231** | **992** | **87** | **2,310** |
| **Balance at January 1, 2000** | | **1,231** | **992** | **87** | **2,310** |
| EADS N.V. (fifty thousand €) | | . | . | . | . |
| Contribution of ASM to EADS N.V. (book value) | | (827) | 827 | | 0 |
| Contribution of Dasa to EADS N.V. (fair value) | | 266 | 5,969 | | 6,235 |
| Contribution of CASA to EADS N.V. (fair value) | | 45 | 1,002 | | 1,047 |
| Capital increase | | 80 | 1,366 | | 1,446 |
| Capital increase ESOP (incl. discount) | | 12 | 193 | | 205 |
| IPO-Costs | | | (56) | | (56) |
| Net loss | | | (903) | | (903) |
| Dividend | | | (31) | | (31) |
| Other comprehensive income | | | | (3) | (3) |
| **Balance at December 31, 2000** | | **807** | **9,359** | **84** | **10,250** |
| First application of IAS 39 | 22 | | | (337) | (337) |
| **Balance at January 1, 2001, adjusted** | | **807** | **9,359** | **(253)** | **9,913** |
| Capital increase ESOP | 24 | 2 | 19 | | 21 |
| Net profit | 23 | | 1,372 | | 1,372 |
| Dividend | 16 | | (404) | | (404) |
| Other comprehensive income | | | | (1,025) | (1,025) |
| thereof changes in fair values of securities | 22 | | | (10) | |
| thereof changes in fair values of hedging instruments | 22 | | | (878) | |
| thereof currency translation adjustment | | | | (137) | |
| **Balance at December 31, 2001** | | **809** | **10,346** | **(1,278)** | **9,877** |

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

EADS
European Aeronautic Defence and Space Company

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## BASIS OF PRESENTATION

### 1. *THE COMPANY*

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

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

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

As EADS applied IAS for the first time in the business year 2000, certain simplifications as allowed under SIC-8 relating to the year 1999 disclosures about cash flow, leasing and the development of fixed assets had been made use of. The following International Accounting Standards ("IAS") have been adopted in the 1999 consolidated financial statements before their effective dates:

- IAS 16 (revised 1998) Property, Plant and Equipment
- IAS 22 (revised 1998) Business Combinations
- IAS 28 (revised 1998) Accounting for Investments in Associates
- IAS 31 (revised 1998) Financial Reporting of Interests in Joint Ventures
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 Intangible Assets

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The effects of intercompany transactions are eliminated.

### *Foreign Currencies*

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

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

**Revenue Recognition** -Revenues are recognized upon the transfer of risk or the rendering of a service. For construction contracts, revenues are recognized according to the percentage-of-completion method as contractually agreed-upon milestones are reached or the work progresses. Changes in profit rates are reflected in current earnings as identified. Contracts are reviewed for possible losses at each reporting period and provisions for estimated losses on contracts are recorded when identified.
Incentives applicable to performance on contracts are considered in estimated profit rates and are recorded when anticipated contract performance is probable and can be reliably measured. Contract penalties are charged to expense in the period it becomes probable that the Group will be subject to the penalties.
Sales of aircraft that include value guarantee commitments are accounted for as operating leases when these commitments are considered substantial compared to the fair value of the related aircraft. Revenues then comprise lease income from such operating leases.
Revenues attributable to customer financing relate principally to the financing of commercial aircraft. Such revenues include sales-type leases and finance income.

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

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

**Income Taxes** - Deferred tax assets and liabilities reflect lower or higher future tax impacts that result for certain assets and liabilities from temporary valuation differences between their carrying amounts and the tax bases as well as from net operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.
As deferred tax assets anticipate potential future tax benefits, they are recorded in the consolidated financial statements of EADS only when the likelihood that the tax benefits will be realized is probable.

**Intangible Assets** - Purchased intangible assets, other than goodwill, are valued at acquisition cost and are generally amortized over their respective useful lives (3 to 10 years) on a straight line basis. Goodwill arising from purchase accounting is amortized 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 recognized principally using the straight-line method. The costs of internally produced equipment and facilities include direct material and labour costs and applicable manufacturing overheads, including depreciation charges. The following useful lives are assumed: buildings 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 specialized tooling for commercial production is capitalized and amortized over 5 years using the straight-line method. If the group is liable for future restoration of leased sites, it accrues for the amount not provided for by insurances.

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

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

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

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

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

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

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

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

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

When a hedging instrument expires or is terminated, any cumulative gain or loss existing in accumulated other comprehensive income at that time remains in accumulated other comprehensive income and is recognized when the related committed transaction is ultimately recognized in the income statement. If the committed transaction is no longer expected to occur, the cumulative gain or loss that was reported in accumulated other comprehensive income is immediately accounted for as financial result.
Financial instruments that have been previously used by EADS in macro-hedging strategies and do not qualify for hedge accounting are accordingly classified as held-for-trading and carried at fair value, with changes in fair value included in other financial result.
In March 1999, the International Accounting Standards Committee issued International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement". This Standard was effective for fiscal years beginning on or after January 1, 2001. Following the introduction of IAS 39, all derivative financial instruments have been recognized as assets or liabilities. The opening balance of equity as at January 1, 2001 has been adjusted. Prior year comparative figures have not been restated. Under the new standard, the Group applies hedge accounting for certain foreign currency derivative contracts on qualifying cash flow hedges of future sales as well as for certain interest rate swaps used as cash flow and fair value hedges of future interest payments. The financial effects of adopting IAS 39 are disclosed in Note 22.

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

### *Refundable Advances*

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

### *Accrued Liabilities*

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

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

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

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

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

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

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

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

## 3. *SCOPE OF CONSOLIDATION*

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

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

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

## 4. *MAJOR EVENTS*

### CREATION OF EADS

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

### FIRST APPLICATION OF IAS 39

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

### AIRBUS UK TRANSACTION

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

The main accounting impacts of this transaction are as follows:

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

## CREATION OF MBDA

On December 18, 2001, EADS, BAES and Finmeccanica signed the agreement establishing MBDA as a legal operating entity. MBDA is jointly owned with 37.5 % by EADS and BAES, respectively and 25.0 % by Finmeccanica. The main accounting impacts are as follows:

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

## TESAT - SPACECOM

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

## NORTEL JOINT VENTURES

As of the beginning of the 4th quarter 2001, modifications initiated by Nortel in the management structure of the Nortel joint ventures led EADS to change its accounting treatment regarding its 42 % investment in Nortel Networks Germany and its 45 % investment in Matra Nortel Communications. As a result, Nortel Networks Germany and Matra Nortel Communications are now included in EADS's financial statements as non-consolidated investments. Before October 1, 2001, the equity method had been applied.

### DORNIER

In 2001 several Dornier family members being shareholders of Dornier GmbH exercised a put option and offered 17,5% of the shares in Dornier GmbH to DaimlerChrysler. DaimlerChrysler in return had the right to have DADC Luft- und Raumfahrt Beteiligungs AG ("DADC"), a subsidiary of EADS, buy the shares at fair market value. As a result, EADS holds indirectly through DADC 76% of the share capital of Dornier GmbH (2000: 58%).

### COGENT

On December 1, 2001, EDSN acquired Cogent Defence Systems. The acquisition was accounted for under the purchase method. The initial goodwill was valued at € 0.1 billion and will be depreciated over a period of 10 years.

## NOTES TO THE CONSOLIDATED STATEMENTS OF INCOME

## *5. REVENUES*

Revenues in 2001 reach M € 30,798 compared with M € 19,427 in 2000 and M € 12,236 in 1999. The increase in 2001 is mainly due to the consolidation of the new Airbus group for the first time and to the consolidation of Dasa/ Casa for a complete full year. The increase of revenues in 2000 mainly relates to first consolidation of EADS in July, 2000.

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

## *6. FUNCTIONAL COSTS AND OTHER EXPENSES*

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

| | Year ended December 31, | | |
|---|---|---|---|
| (in millions of €) | 2001 | 2000 | 1999 |
| Cost of raw materials, supplies and resale products | 14,401 | 8,759 | 6,303 |
| Cost of purchased services | 5,635 | 3,268 | 2,161 |
| | **20,036** | **12,027** | **8,464** |

**Selling, administrative and other expenses** are comprised of selling expenses (M € 800 and M € 567 in 2001 and 2000, respectively), administration expenses (M € 1,386 and M € 1,001 in 2001 and 2000, respectively) and other expenses (M € 375 and M € 576 in 2001 and 2000, respectively). Other expenses include losses from sales of fixed assets (M € 20 and M € 49 in 2001 and 2000, respectively) and additions to other accruals (M € 34 and M € 112 in 2001 and 2000, respectively).

**Personnel expenses** are comprised of:

| | Year ended December 31, | | |
|---|---|---|---|
| (in millions of €) | 2001 | 2000 | 1999 |
| Wages, salaries and social contributions | 6,606 | 3,971 | 2,769 |
| Net periodic pension cost (see Note 17 a) | 257 | 144 | 46 |
| | **6,863** | **4,115** | **2,815** |

## 7. OTHER INCOME

Other income mainly comprises the dilution gain as a result of the Airbus UK transaction (see Note 4) as well as a dilution gain as a result of the MBDA transaction, totalling M € 2,817, rental income (M € 21 and M € 32 in 2001 and 2000, respectively), in 1999 gains on sales of property, plant & equipment including the disposal of the investment in Sextant (M € 287).

## 8. FINANCIAL RESULT

| | Year ended December 31, | | |
|---|---|---|---|
| (in millions of €) | 2001 | 2000 | 1999 |
| Income (loss) from investments | (342) | 110 | 56 |
| Interest income (expense) | 63 | (42) | (96) |
| Other financial loss | (234) | (1,388) | (1,684) |
| | **(513)** | **(1,320)** | **(1,724)** |

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

Other financial loss in 2001, 2000 and 1999 mainly resulted from mark-to-market revaluation of financial instruments that do not qualify for "hedge accounting" (see note 22 on Financial Instruments). Additionally, in 1999, the restructuring of the foreign exchange risk management resulted in a M € (401) loss.

## 9. INCOME TAXES

Income (loss) before income taxes and minority interests amounted to M € 2,001 for the year ended December 31, 2001 (2000: M € (1,144); 1999: M € (974)).

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

| | Year ended December 31, | | |
|---|---|---|---|
| (in millions of €) | 2001 | 2000 | 1999 |
| Current tax expense | (549) | (430) | (55) |
| Deferred tax (expense) / benefit | (97) | 694 | 407 |
| | **(646)** | **264** | **352** |

For the Group's German subsidiaries, the deferred taxes at December 31, 2001 are calculated using a federal corporate tax rate of 25% (2000: 25%; 1999: 40%) plus a solidarity surcharge of 5.5% for each year on federal corporate taxes payable plus the after federal tax benefit rate for trade tax of 12.125% (2000: 12.125%; 1999: 9.3%). Including the impact of the surcharge and the trade tax, the tax rate applied to German deferred taxes amounts to 38.5% (2000: 38.5%; 1999: 51.5%).

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

In France, the corporate tax rate in effect for 2000 was 33 1/3 % plus a surcharge of 10%. The French government has established for the years 2001 and 2002 a reduced surcharge of 6% in 2001 and 3% in 2002. Accordingly, deferred tax assets and liabilities for the Group's French subsidiaries were calculated using the enacted tax rate of 35.43 % for temporary differences. The effects of the tax rate reduction on the year-end 2001 and 2000 deferred tax assets and liabilities are reflected in the reconciliation presented below.

The following table shows a reconciliation from an expected income tax expense - using the Dutch corporate tax rate of 35 % (in 1999: the French corporate tax rate of 40%) - to the reported tax expense (2000 and 1999: benefit). The reconciling items represent non-taxable benefits or non-deductible expenses coming from permanent differences between the local tax base and the reported financial statements according to IAS rules.

| | Year ended December 31, | | |
|---|---|---|---|
| (in millions of €) | 2001 | 2000 | 1999 |
| Profit (loss) before income taxes and minority interests | 2,001 | (1,144) | (974) |
| x Corporate income tax rate | 35 % | 35 % | 40 % |
| Expected benefit (expense) for income taxes | (700) | 400 | 390 |
| Effect of changes in tax laws | (1) | 88 | (20) |
| Foreign tax rate differential | (4) | 15 | 0 |
| Dilution gains | 936 | — | — |
| Goodwill amortization | (588) | (123) | (47) |
| Write down of deferred tax assets | (264) | (133) | 27 |
| Tax credit for R&D expenses | 48 | 25 | 0 |
| Other | (73) | (8) | 2 |
| Reported tax benefit (expense) | (646) | 264 | 352 |

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

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

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

At December 31, 2001, the Group had domestic corporate tax net operating losses ("NOLs") amounting to M € 62, foreign NOLs and credit carry forwards amounting to M € 1,568, and foreign trade tax NOLs amounting to M € 726. 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 realized. In future periods, depending upon the Group's financial results, management's estimate of the amount of the deferred tax assets considered realizable 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:

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

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

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

## NOTES TO THE CONSOLIDATED BALANCE SHEETS

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

#### Intangible assets

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

Cost

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

Amortization

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

Carrying amount

| (in millions of €) | Balance at January 1, 2001 | Balance at December 31, 2001 |
|---|---|---|
| Other intangible assets | 116 | 146 |
| Goodwill | 8,049 | 10,442 |
| **Total** | **8,165** | **10,588** |

EADS
European Aeronautic Defence and Space Company

Goodwill increased mainly due to the purchase of Airbus UK and 20 % stake in Airbus GIE.
Reclassification of goodwill M € (389) results from M € (516) related to the Nortel Joint Venture reclassified to financial assets, partly offset by M € 127 from other receivables and other assets to goodwill (see note 14). As a result of the creation of MBDA, M € 209 of goodwill considered at the time of the Aerospatiale Matra transaction have been included in the computation of the net dilution gain and is shown within disposals.

## Impairment loss

In 2001, following the events caused by the terrorist attacks on September 11, 2001, the Group performed an impairment test on recognized goodwill for the Airbus division. The recoverable amount of Airbus, which is to be seen as a cash generating unit on its own, is exceeding the carrying amount. Therefore, no goodwill has to be impaired.
Further impairment tests were performed for the Space and Defence divisions. Based on current forecasts the Group performed impairment tests which resulted in impairment charges as follows:

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

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

## Property, plant and equipment

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

### Cost

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

## Depreciation

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

## Carrying amount

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

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

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

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

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

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

| | |
|---|---|
| 2002 | M € 195 |
| 2003 | M € 193 |
| 2004 | M € 191 |
| 2005 | M € 189 |
| 2006 | M € 178 |
| thereafter | M € 443 |

## 11. *INVESTMENTS AND LONG-TERM FINANCIAL ASSETS*

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

| (in millions of €) | December 31, 2001 | December 31, 2000 |
|---|---|---|
| Equity investments | 1,252 | 1,318 |
| Other investments | 766 | 422 |
| Other financial assets | 2,708 | 2,869 |
| **Total** | **4,726** | **4,609** |

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

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

The components of investment in finance leases are as follows:

| (in millions of €) | At December 31, 2001 |
|---|---|
| Minimum lease payments receivables | 1,022 |
| Unearned finance income | (222) |
| Allowance | (286) |
| **Total** | **514** |

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

| | |
|---|---|
| 2002 | M € 128 |
| 2003 | M € 117 |
| 2004 | M € 121 |
| 2005 | M € 92 |
| 2006 | M € 90 |
| thereafter | M € 474 |

## 12. *INVENTORIES*

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

## 13. *TRADE RECEIVABLES*

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

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

## 14. *OTHER RECEIVABLES AND OTHER ASSETS*

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

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

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

## 15. *SECURITIES*

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

## 16. *SHAREHOLDERS' EQUITY*

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

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

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

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

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

## 17. *PROVISIONS*

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

M € 3,128 (2000: M € 2,836) of retirement plans and similar obligations and M € 4,460 (2000: M € 2,894) of other provisions have a maturity of more than 1 year.

### a) Retirement plans

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

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

| | At December 31, | |
|---|---|---|
| (in millions of €) | 2001 | 2000 |
| **Change in defined benefit obligations:** | | |
| Defined benefit obligations at beginning of year | 3,512 | 589 |
| Service cost | 84 | 55 |
| Interest cost | 220 | 114 |
| Plan amendments | (8) | 2 |
| Actuarial (gains) losses | 191 | (10) |
| Acquisitions and other | 12 | 2,845 |
| Benefits paid | (131) | (83) |
| **Defined benefit obligations at end of year** | **3,880** | **3,512** |

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

| | | |
|---|---|---|
| **Change in plan assets:** | | |
| Fair value of plan assets at beginning of year | 682 | 0 |
| Actual return on plan assets | (70) | 29 |
| Contributions | 1 | 19 |
| Acquisitions and other | 0 | 653 |
| Benefits paid | (42) | (19) |
| **Fair value of plan assets at end of year** | **571** | **682** |

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

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

| | At December 31, | |
|---|---|---|
| (in millions of €) | 2001 | 2000 |
| Funded status (1) | 3,309 | 2,830 |
| Unrecognized actuarial net gains (losses) | (158) | 129 |
| Net amount recognized | 3,151 | 2,959 |

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

The net amount recognized represents the amount recognized 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 recognized because they do not meet the recognition criteria. The difference between the net amount recognized as pension liability (M € 3,151; 2000: M € 2,959) and the total amount of retirement plans and similar obligations (M € 3,176; 2000: M € 2,986) is caused mainly by additional commitments for deferred compensation, which in the year of its origin do not form part of the net amount recognized as pension liability.

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

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

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

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

| (in millions of €) | 2001 | 2000 |
|---|---|---|
| Service cost | 84 | 55 |
| Interest cost | 220 | 114 |
| Expected return on plan assets | (47) | (25) |
| Net periodic pension cost | 257 | 144 |

## b) Other provisions

Other provisions consisted of the following:

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

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

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

## 18. *FINANCIAL LIABILITIES*

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

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

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

| (in millions of €) | 2002 | 2003 | 2004 | 2005 | 2006 | there-after |
|---|---|---|---|---|---|---|
| Financial liabilities | 1,462 | 497 | 319 | 313 | 427 | 3,482 |

## 19. *TRADE AND OTHER LIABILITIES*

| | At December 31, | |
|---|---|---|
| (in millions of €) | 2001 | 2000 |
| Trade liabilities | 5,466 | 4,268 |
| Other liabilities | 10,631 | 8,200 |
| | **16,097** | **12,468** |

In the trade liabilities as of December 31, 2001, M € 173 (2000: M € 202) mature after more than one year. Included in "other liabilities" are M € 2,024 (2000: M € 1,136) maturing after more than five years.
At December 31, 2001, other liabilities mainly comprise customer advance payments of M € 4,509 (2000: M € 3,811), as well as European Governments refundable advances of M € 3,469 (2000: M € 2,088). They also include further liabilities to related parties of M € 68 (2000: M € 103) and to affiliated parties amounting to M € 85 (2000: M € 39). The increase in European Governments refundable advances results mostly from the first consolidation of Airbus UK.

# OTHER NOTES

## 20. *LITIGATION AND CLAIMS*

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

## 21. *COMMITMENTS AND CONTINGENCIES*

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

Despite the underlying collateral, if Airbus should be unable to honor its obligations, certain EADS and BAE SYSTEMS group companies retain joint and several liability for sales financing exposure incurred by Airbus prior to January 1, 2001. EADS' exposure to liabilities incurred by Airbus following January 1, 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. The liability is limited to each partner's proportionate share.

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

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

## Operating lease commitments

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

| (in millions of €) | Operating leases |
|---|---|
| 2002 | 416 |
| 2003 | 400 |
| 2004 | 416 |
| 2005 | 391 |
| 2006 | 395 |
| thereafter | 2,866 |

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

## 22. INFORMATION ABOUT FINANCIAL INSTRUMENTS

### a) Financial risk management

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

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

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

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

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

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

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

## b) Notional amounts and credit risk

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

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

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

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

## c) Fair value of financial instruments

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

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

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

The fair value gains and losses at December 31, 2001 on open currency contracts which hedge future foreign currency sales will be transferred from the accumulated other comprehensive income to the income statement when the related transactions occur, at various dates between the balance sheet date and 7 years from the balance sheet date.

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

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

The methodologies used are as follows :

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

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

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

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

### d) Impact of adoption of IAS 39 on Shareholders' equity and individual balance sheet captions

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

Summary of impacts on "accumulated other comprehensive income"

| (in millions of €) | Available-for-sale Investments | Hedging instruments | Total |
|---|---|---|---|
| Balance of other comprehensive income at December 31, 2000 | 84 | - | 84 |
| **Adoption of IAS 39 at January 1, 2001:** | | | |
| Gains/ losses on remeasurement to fair value | - | (606) | (606) |
| Deferred income taxes | - | 222 | 222 |
| Balance at January 1, 2001 | - | (384) | (384) |
| **Movements in year ended December 31, 2001:** | | | |
| Gains/ losses from changes in fair value | (11) | (1,964) | (1,975) |
| Deferred income taxes | 1 | 720 | 721 |
| | **(10)** | **(1,244)** | **(1,254)** |
| Transferred to income statement | - | 311 | 311 |
| Deferred income taxes | - | (114) | (114) |
| | **-** | **197** | **197** |
| **Balance at December 31, 2001:** | | | |
| Gross amount of gains and losses | 73 | (2,259) | (2.186) |
| Deferred income taxes | 1 | 828 | 829 |
| | **74** | **(1,431)** | **(1.357)** |
| Minority interest | | 216 | (1,215) |

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

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

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

## 23. *SEGMENT REPORTING*

The Group operates in 5 divisions; a description of the products and services, from which each segment derives its revenues, follows:

- **Airbus** - Development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats.

- **Military Transport** - Development, manufacturing, marketing and sale of light and medium military transport aircraft and special mission aircraft.

- **Aeronautics** - Development, manufacturing, marketing and sale of civil and military helicopters, military combat and trainer aircraft, regional turboprop aircraft and light commercial aircraft; and civil and military aircraft conversion and maintenance services.

- **Defence and Civil systems** - Development, manufacturing, marketing and sale of missiles systems; and provision of defence electronics, military and commercial telecommunications solutions; and logistics, training, testing, engineering and other related services

- **Space** - Development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers; and provision of launch services.

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

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

| (in millions of €) | Airbus | Military Transport | Aero-nautics | Defence and Civil Systems | Space | HQ/ Elimin. | Conso-lidated |
|---|---|---|---|---|---|---|---|
| **2001** | | | | | | | |
| Total revenues | 20,549 | 547 | 5,065 | 3,345 | 2,439 | (1,147) | 30,798 |
| Share of net profit of associates | (12) | 0 | 0 | (14) | (63) | 111 | 22 |
| EBIT pre goodwil amortisation and exceptionals | 1,655 | 1 | 308 | (79) | (222) | 31 | 1,694 |
| Identifiable segment assets (incl. goodwill) | 27,264 | 568 | 7,187 | 5,583 | 3,462 | 4,651 | 48,715 |
| Investments in equity method associates | 0 | 0 | 0 | 0 | 0 | 1,252 | 1,252 |
| Segment total liabilities | 25,532 | 365 | 5,869 | 3,545 | 2,601 | 367 | 38,279 |
| Capital expenditures | 1,433 | 63 | 281 | 159 | 99 | 161 | 2,196 |
| Depreciation, amortisation and related impairment losses | 1,625 | 21 | 278 | 1,147 | 331 | 158 | 3,560 |
| Goodwill | 7,089 | 0 | 1,005 | 1,464 | 736 | 148 | 10,442 |
| **2000** | | | | | | | |
| Total revenues | 11,398 | 249 | 4,254 | 2,463 | 2,183 | (1,120) | 19,427 |
| Share of net profit of associates | 0 | 0 | 0 | 45 | (1) | 48 | 92 |
| EBIT pre goodwil amortisation and exceptionals | 1,173 | (28) | 238 | (79) | 64 | (230) | 1,138 |
| Identifiable segment assets (incl. goodwill) | 21,352 | 435 | 6,548 | 5,857 | 3,233 | 4,019 | 41,444 |
| Investments in equity method associates | 0 | 0 | 0 | 125 | 29 | 1,164 | 1,318 |
| Segment total liabilities | 19,094 | 269 | 5,176 | 2,983 | 1,951 | 1,500 | 30,973 |
| Capital expenditures | 378 | 35 | 247 | 78 | 94 | 47 | 879 |
| Depreciation,amortisation and related impairment losses | 474 | 12 | 176 | 199 | 153 | 107 | 1,121 |
| Goodwill | 3,310 | 0 | 1,056 | 2,675 | 915 | 93 | 8,049 |

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

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

.

EADS uses EBIT pre-goodwill amortization and exceptionals as a key indicator of its economic performance. The term "exceptionals" refers to income or expenses of a non-recurring nature, such as amortization expenses of Fair Value Adjustments relating to the EADS Merger, the Airbus Combination and the formation of MBDA, as well as impairment charges. EBIT pre goodwill and exceptionals is treated by management as a key indicator to measure the segments' economic performances.

| | 2001 | 2000 |
|---|---|---|
| Income before financial income, income taxes and minority interests | 2,514 | 176 |
| Dilution gain Airbus UK, MBDA | (2,794) | - |
| Goodwill amortisation and related impairment charges | 1,466 | 277 |
| Exceptional depreciation (fixed assets) | 260 | 92 |
| Exceptional depreciation (financial assets) | 315 | - |
| Exceptional depreciation (inventories) | 275 | 483 |
| Income from investments | (342) | 110 |
| EBIT pre goodwill and exceptionals | 1,694 | 1,138 |

| Revenues (by destination) in millions of € | France | Germany | Other European Countries | North America | Latin America | Asia | Other Countries | Conso-lidated |
|---|---|---|---|---|---|---|---|---|
| 2001 | 3,521 | 3,588 | 6,728 | 10,394 | 1,749 | 3,138 | 1,680 | 30,798 |

The revenues in 2000 according to destination are mainly realized in Europe (M € 10,275), thereof M € 2,778 in Germany and M € 2,735 in France. North America contributes M € 5,339, Latin America M € 798 to the revenues.

## 24. *STOCK-BASED COMPENSATION*

### Stock Option Plan

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

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

The following table summarizes the development of stock options:

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

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

### Employee Stock Ownership Plan (ESOP) 2001

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

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

## 25. RELATED PARTY TRANSACTIONS

**Related parties** - The Group has entered into various transactions with related companies in 2001 and 2000 that have all been carried out in the normal course of business at arm's length. Transactions with related parties include the French State, DaimlerChrysler, Lagardère, and SEPI (Spanish State). Except for the transactions with the French State the transactions are not considered material to the Group either individually or in the aggregate. The transactions with the French State include mainly sales from the Aeronautics, Defence, and Space divisions.

**Remuneration** - The remuneration of directors and pensions of/ other contributions to retired directors amount to M € 5.60 (2000: M € 2.41). Additionally exist accruals for pension obligations of M € 1.87 (2000: M € 1.52). The remuneration of supervisory directors and pension of/ other contributions to retired supervisory directors amount to M € 0.00 (2000: M € 0.16). Since the creation of EADS, the Group has no supervisory directors any longer. The remuneration for supervisory directors in 2000 refers to former ASM. The above remuneration does not include any amounts for the value of options to subscribe for ordinary shares in EADS granted to or held by directors. Reference is made to note 24 of the financial statements.
EADS has not provided any loans to/ advances to/ guarantees on behalf of (retired) directors.

## 26. *INVESTMENT PROPERTY*

The Group owns investment property, mainly contributed by Dasa to EADS, that is leased to third parties. The investment property contibuted by Dasa was recorded at fair value as of July 1, 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 July 1, 2000 by a registered independent valuer having an appropriate recognized 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 millions of €) | Net at December 31, 2000 | Additions | Disposals | Depreciation-amortization | Changes in consolidation scope/exchange differences | Net at December 31, 2001 |
|---|---|---|---|---|---|---|
| Book value of Investment Property | 87 | 11 | 0 | 1 | 0 | 97 |

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

## 27. EARNINGS PER SHARE

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

| | 2001 | 2000 |
|---|---|---|
| Net income attributable to shareholders | M € 1,372 | M € (903) |
| Balance of issued ordinary shares at beginning of year | 807,157,667 | 100 shares with nominal value per share of NLG 1,000 |
| December 5, 2001 - Issue of new shares for cash (ESOP 2001) | 2,017,894 | |
| April 3, 2000 - Conversion into € - nominal value per share € 1.00 | | 50,000 |
| July 8, 2000 - Issue of shares in exchange for contributions ASM, Dasa and Casa | | 715,003,828 |
| July 13, 2000 - Issue of new shares – Initial public offering | | 80,334,580 |
| September 21, 2000 - Issue of new shares for cash (ESOP 2000) | | 11,769,259 |
| Balance of issued shares at end of year | 809,175,561 | 807,157,667 |
| Weighted average number of ordinary shares in issue | 807,295,879 | 385,661,919 |
| Basic earnings per share | € 1.70 | € (2.34) |

**Diluted earnings per share** - For the calculation of the diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all potential ordinary shares. The Group's only category of dilutive potential ordinary shares is stock options. Since the exercise price of the stock options under both stock option plans initiated by the Group in 2001 and 2000 is exceeding the share price of EADS shares, to include these potential ordinary shares would be anti-dilutive. As a consequence, net income as well as the weighted number of ordinary shares in issue is the same for both basic and diluted earnings per share.

| | 2001 | 2000 |
|---|---|---|
| Net income attributable to shareholders | M € 1,372 | M € (903) |
| Weighted average number of ordinary shares in issue | 807,295,879 | 385,661,919 |
| Diluted earnings per share | € 1.70 | € (2.34) |

## 28. NUMBER OF EMPLOYEES

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

# APPENDIX: INFORMATION ON PRINCIPAL INVESTMENTS

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

F: Fully consolidated P: Proportionate E: Equity method

| 2000 | 2001 | Company | Head office |
|---|---|---|---|
| **DEFENCE AND CIVIL SYSTEMS** | | | |
| | - | EADS Deutschland GmbH Verkehrsleittechnik TB67 | Unterschleißheim (Germany) |
| F | F | FmElo Elektronik- und Luftfahrtgeräte GmbH | Ulm (Germany) |
| F | F | Hagenuk Marinekommunikation GmbH | Flintbek (Germany) |
| F | F | EUROBRIDGE Mobile Brücken GmbH | Friedrichshafen (Germany) |
| F | F | EADS Deutschland GmbH – Verteidigung und Zivile Systeme | Ulm (Germany) |
| F | F | Dornier Verteidigung und Zivile Systeme | Friedrichshafen (Germany) |
| F | F | EADS Funkkommunikation GmbH | Ulm (Germany) |
| F | F | Ewation GmbH | Ulm (Germany) |
| F | F | Matra Aerospace Inc. (M.A.I.) | Frederick Maryland (USA) |
| F | F | Fairchild Controls Corporation | Frederick Maryland (USA) |
| F | | Germantown Holding Company | Frederick Maryland (USA) |
| F | F | Manhattan Beach Holdings Co. | Frederick Maryland (USA) |
| F | F | Matra Systemes & Information | Velizy (France) |
| F | F | APIC | Arcueil (France) |
| F | | G 2 I | Velizy (France) |
| F | F | EADS Services | Boulogne (France) |
| | F | Pentastar Holding | Paris (France) |
| | F | Aviation Defense Service S.A. | Saint-Gilles (France) |
| F | F | M.C.N. SAT HOLDING | Velizy (France) |
| F | F | MULTICOMS (MNC Sat Services) | Sèvres (France) |
| F | | Matra Global Netservices (Grolier Network) | Boulogne (France) |
| F | F | International Test & Services | Velizy (France) |
| | F | TYX Corp. | Reston, VA, USA |
| | F | ARC | CA, USA |
| | F | ARC-IAI | San Antonio, TX, USA |
| F | F | M.P. 13 | Paris (France) |
| F | F | EADS Matra Datavision S.A. | Paris (France) |
| F | F | EADS Matra Datavision International | Les Ulis (France) |
| F | F | EADS Matra Datavision Ltd | CovAddition (UK) |
| F | F | EADS Matra Datavision AG | Regensdorf (Suisse) |
| F | F | EADS Matra Datavision Benelux | Brussels (Belgium) |
| F | F | EADS Matra Datavision Asia Pacific | Wanchai (Hong Kong) |
| F | F | EADS Matra Datavision B.V. | Leiden (Netherlands) |
| F | F | EADS Matra Datavision GmbH | Munich (Germany) |
| F | F | EADS Matra Datavision Iberia | Madrid (Spain) |
| F | F | EADS Matra Datavision Inc. | Andover (USA) |
| F | F | EADS Matra Datavision Kk | Tokyo (Japan) |
| F | F | EADS Matra Datavision SpA | Turin (Italy) |
| F | F | Open Cas Cade | Paris (France) |
| | F | ETP SPA | Turin (Italy) |
| F | F | Matra Defense | Velizy (France) |
| F | F | Matra Holding GmbH | Frankfurt (Germany) |
| P | P | MBDA SAS | Velizy (France) |
| P | P | MBDA Man. S.A | Velizy (France) |
| P | P | ALKAN | Valenton (France) |
| P | P | MBDA France | Velizy (France) |
| P | P | MBDA UK Ltd. | Stevenage, Herts (UK) |
| P | P | Matra Electronique | La Croix Saint-Ouen (France) |
| F | P | MBDA Missiles S.A. | Chatillon sur Bagneux (France) |
| P | P | MBDA Inc | Westlack, CA (USA) |
| | P | MBDA Italy SpA | Roma (Italy) |
| | P | MBDA Treasury | Jersey (UK) |
| | P | Marconi Overside Ldt. | Chelmsford (UK) |

F: Fully consolidated P: Proportionate E: Equity method

APPENDIX: INFORMATION ON PRINCIPAL INVESTMENTS

| 2000 | 2001 | Company | Head office |
|---|---|---|---|
| | P | AMS Dynamics Ldt: | Guernsey (UK) |
| P | P | Celerg | Le Plessis-Robinson (France) |
| F | F | Celerg international | Le Plessis-Robinson (France) |
| F | F | International de systemes propulsifs | Paris (France) |
| F | F | LFK – Lenkflugkörpersysteme GmbH | Unterschleißheim (Germany) |
| F | F | TDW- Ges. für verteidigungstechnische Wirksysteme GmbH | Schrobenhausen (Germany) |
| F | F | EADS Deutschland GmbH – VA (Restaktivitäten) | Unterschleißheim (Germany) |
| F | F | TAURUS Systems GmbH | Schrobenhausen (Germany) |
| P | P | Bayern-Chemie Gesellschaft für flugchemische Antriebe mbH | Aschau/Inn |
| P | P | Propulsion Tactique S.A. | La Ferte Saint Aubin (France) |
| P | P | TDA – Armements S.A.S. | La Ferte Saint Aubin (France) |
| P | P | Forges de Zeebrugge S.A. | Herstal-Liege (Belgium) |
| F | F | EADS Defence & Security Networks | Bois d'Arcy (France) |
| F | F | Matra Radio Systems | Madrid (Spain) |
| F | F | AEG Mobile Communication | Ulm (Germany) |
| F | F | Matra Communications Mexico | Mexico DF (Mexico) |
| F | F | EGT | Bruxelles (Belgium) |
| F | F | MC Denmark | Copenhague (Denmark) |
| F | F | MC Italy | Milan (Italy) |
| F | F | Matra Comunicaciones de Espana | Barcelona (Spain) |
| E | | Nortel Networks Germany GmbH & Co KG | Friedrichshafen (Germany) |
| F | F | Matra Nortel Holding (MNH) | Paris (France) |
| F | F | MATRAnet | Velizy (France) |
| F | | MATRAnet Inc. | Redwood shores, CA (USA) |
| F | F | Matra Communication USA Inc | Dallas, Texas (USA) |
| F | F | Intecom Inc | Dallas, Texas (USA) |
| F | F | Intecom Holding ULC | Dallas, Texas (USA) |
| F | F | Intecom Canada Inc | Dallas, Texas (USA) |
| F | F | Pyderion Contact Technologies Inc. | Dallas, Texas (USA) |
| | F | Cogent | UK |
| E | | Matra Nortel Communications | Quimper (France) |
| **SPACE** | | | |
| | | Aerospatiale Matra Lanceurs Stratégieues et Spaciaux | Paris (France) |
| F | F | Amanthea Holding B.V. | Amsterdam (Netherlands) |
| P | P | ASTRIUM GmbH | München (Germany) |
| P | P | ASTRIUM Ltd. | Stevenage (UK) |
| P | P | ASTRIUM N.V. | The Hague (Netherlands) |
| P | P | ASTRIUM SAS | Toulouse (France) |
| | P | Computadoras, Redes e Ingenieria SA (CRISA) | Madrid (Spain) |
| F | F | EADS CASA S.A. (Unit: EADS CASA Space) | Madrid (Spain) |
| F | F | EADS Deutschland GmbH – Space Services | Munich (Germany) |
| F | F | EADS Dornier Raumfahrt Holding GmbH | Munich (Germany) |
| F | F | EADS Launch Vehicles | Vèlizy (France) |
| F | F | Global DASA LLC | New York (USA) |
| E | E | Loral Dasa Globalstar L.P. | New York (USA) |
| P | P | Matra Marconi Space UK Ltd. | Stevenage (UK) |
| | | Matra Space Systems Participations BV | The Hague (Netherlands) |
| P | P | MMS Space Holdings N.V. | Amsterdam (Netherlands) |
| P | P | MMS Systems Ltd | Stevenage (UK) |
| E | E | Nahuelsat S.A. | Buenos Aires (Argentina) |
| F | P | NRSCL Infoterra Ltd | Southwood (UK) |
| | | Sodern | Limeil-Brevannes (France) |
| | | Spot Image | Toulouse (France) |
| | P | TESAT-Spacecom GmbH & Co. KG | Backnang (Germany) |

F: Fully consolidated P: Proportionate E: Equity method

APPENDIX: INFORMATION ON PRINCIPAL INVESTMENTS

| 2000 | 2001 | Company | Head office |
|---|---|---|---|
| **MILITARY TRANSPORT AIRCRAFT** | | | |
| F | F | EADS CASA S.A. (Unit: EADS CASA Military Transport Aircraft) | Madrid (Spain) |
| **AERONAUTICS** | | | |
| F | F | Elbe Flugzeugwerke GmbH | Dresden (Germany) |
| | F | EADS EFW Beteiligungs- und Verwaltungsgesellschaft GmbH | Munich (Germany) |
| F | F | EADS Sogerma S.A. | Mérignac (France) |
| F | F | EADS Seca S.A. | Le Bourget (France) |
| F | F | Barfield B.C. | Miami, Florida (USA) |
| F | F | EADS Revima S.A. | Tremblay en France (France) |
| F | F | Composites Aquitaine S.A. | Salaunes (France) |
| F | F | Maroc Aviation S.A. | Casablanca (Morocco) |
| F | F | Noise Reduction Engineering B.C. | Washington D.C. (USA) |
| F | F | Aerobail GIE | Paris (France) |
| F | F | EADS Aeroframe services LLC | Lake Charles, Louisiana (USA) |
| | F | EADS Sogerma Tunisie | Monastir (Tunisia) |
| F | F | Eurocopter Holding S.A. | Paris (France) |
| F | F | Eurocopter S.A. | Marignane (France) |
| F | F | Eurocopter Deutschland GmbH | Munich (Germany) |
| F | F | American Eurocopter Corp. | Dallas, Texas (USA) |
| F | F | Eurocopter Canada Ltd. | Ontario (Canada) |
| F | F | Eurocopter South East Asia | Singapore |
| F | F | Helibras - Helicopteros do Brasil S.A. | Itajuba (Brazil) |
| F | F | EADS Socata S.A. | Le Bourget (France) |
| F | F | EADS Deutschland GmbH – Military Aircraft | Munich (Germany) |
| F | F | Dornier Flugzeugwerft GmbH | Manching (Germany) |
| F | F | EADS CASA S.A. (Unit: EADS CASA Military Aircraft) | Madrid (Spain) |
| F | F | EADS ATR S.A. | Toulouse (France) |
| P | P | ATR GIE | Toulouse (France) |
| E | | Fairchild Dornier Luftfahrt Beteiligungs GmbH | Oberpfaffenhofen (Germany) |
| **HEADQUARTERS** | | | |
| F | F | EADS France | Paris (France) |
| F | F | EADS Deutschland GmbH – Zentrale | Munich (Germany) |
| F | F | EADS Deutschland GmbH, LO - Liegenschaften OTN | Munich (Germany) |
| F | F | EADS Deutschland GmbH, FO - Forschung | Munich (Germany) |
| F | F | EADS Raumfahrt Beteiligungs GmbH | Ottobrunn (Germany) |
| F | F | DADC Luft- und Raumfahrt Beteiligungs AG | Munich (Germany) |
| F | F | Dornier Zentrale | Friedrichshafen (Germany) |
| F | F | EADS CASA S.A. (Headquarters) | Madrid (Spain) |
| E | E | Dassault Aviation | Paris (France) |
| E | E | Dassault International France | Vaucresson (France) |
| E | E | Dassault Falcon Jet and subsidiaries | Teterboro NJ (USA) |
| E | E | Sogitec Industries | Suresnes (France) |
| E | E | Dassault Falcon Service | |
| E | E | IPS | |
| E | E | Dassault Aero Service | |
| E | E | Dassault Assurances Courtage | |
| E | E | Dassault Intemational Inc | Paramus NJ (USA) |
| E | E | Société Toulouse Colomiers | |
| | F | Airbus Financial Company Holding B.V. | Dublin (Ireland) |
| F | | S.C.I. Matra Toulouse | Toulouse (France) |

F: Fully consolidated P: Proportionate E: Equity method

EADS
European Aeronautic Defence and Space Company

# EADS N.V. STATUTORY FINANCIAL STATEMENTS

## BALANCE SHEET

| (in millions of €) | | At December 31, | |
|---|---|---|---|
| **Assets** | Note | 2001 | 2000 |
| Goodwill | 3 | 5,068 | 5,695 |
| Financial assets | 3 | 2,232 | 3,130 |
| **Fixed assets** | | **7,300** | **8,825** |
| Receivables and other assets | 4 | 2,825 | 254 |
| Securities | 5 | 5,047 | 2,482 |
| Cash and cash equivalents | | 828 | 2,081 |
| **Non-fixed assets** | | **8,700** | **4,817** |
| **Deferred taxes** | | **22** | **32** |
| **Total assets** | | **16,022** | **13,674** |
| **Liabilities and stockholders' equity** | | | |
| Capital stock | | 809 | 807 |
| General reserves | | 9,068 | 9,443 |
| **Stockholders' equity** | **6** | **9,877** | **10,250** |
| Other liabilities | 7 | 6,145 | 3,424 |
| **Liabilities** | | **6,145** | **3,424** |
| **Total liabilities and stockholders' equity** | | **16,022** | **13,674** |

## STATEMENT OF INCOME

| (in millions of €) | 2001 | 2000 |
|---|---|---|
| Income from investments | 1,807 | (401) |
| Other results | (435) | (149) |
| **Net result** | **1,372** | **(550)** |

# NOTES TO STATUTORY FINANCIAL STATEMENTS

## 1. GENERAL

EADS N.V., having its legal seat in Amsterdam, The Netherlands, is engaged in the holding, coordinating and managing of participations or other interests in and to finance and assume liabilities, provide for security and/or guarantee debts of legal entities, partnerships, business associations and undertakings that are involved in the aeronautic, defence, space and/or communication industry or activities that are complementary, supportive or ancillary thereto.

The description of the company's activities and the group structure, as included in the notes to the consolidated financial statements, also apply to the company-only financial statements. In accordance with article 402 Book 2 of the Dutch Civil Code the statement of income is presented in abbreviated form.

## 2. ACCOUNTING PRINCIPLES

The accounting principles as described in the notes to the consolidated financial statements also apply to the company-only financial statements, unless indicated otherwise.

## 3. FIXED ASSETS

The movement in fixed assets is as follows:

| (in millions of €) | Goodwill | Financial Assets Participating Interests | Total |
|---|---|---|---|
| **Balance at December 31, 2000** | **5,695** | **3,130** | **8,825** |
| Additions | - | 498 | 498 |
| Amortization Goodwill | (462) | - | (462) |
| Reclassification | (165) | 165 | 0 |
| Net income from investments | - | 1,807 | 1,807 |
| Fair value adjustments financial instruments/ others | - | (1,362) | (1,362) |
| Dilution gain | - | (2,006) | (2,006) |
| **Balance at December 31, 2001** | **5,068** | **2,232** | **7,300** |

Further information with respect to the goodwill is included in the note "Formation of EADS in 2000" to the consolidated financial statements.

The reclassification of goodwill (M€ 165) to financial assets is related to Nortel Networks Germany.

The fair value adjustments financial instruments/others reflect the impact in the other comprehensive income related to the application of IAS 39 (see note 4 of the consolidated financial statements).

The dilution gain is attributable to the Airbus UK transaction. The amount of M€ 2,006 reflects the EADS N.V. share (80%) in Airbus. For further information please see note 4 of the consolidated financial statements.

EADS
European Aeronautic Defence and Space Company

## 4. RECEIVABLES AND OTHER ASSETS

| (in millions of €) | 2001 | 2000 |
|---|---|---|
| Receivables from affiliated companies | 2,675 | 159 |
| Receivables from related companies | 47 | 21 |
| Other assets | 103 | 74 |
| **Total receivables and other assets** | **2,825** | **254** |

The increase of the receivables from affiliated companies is attributable to the transfer of the cash pooling activities related to the former Aerospatiale Matra companies from EADS France to EADS N.V..
The receivables and other assets mature within one year.

## 5. SECURITIES

The securities comprise mainly Available-for-Sales Securities.

## 6. STOCKHOLDERS' EQUITY

| (in millions of €) | Capital stock | Reserves from contributions | Other reserves | Total |
|---|---|---|---|---|
| Balance at December 31, 2000 | 807 | 8,459 | 984 | 10,250 |
| Capital increase | 2 | - | 19 | 21 |
| Net income | - | - | 1,372 | 1,372 |
| Accumulated other comprehensive income | - | - | (1,362) | (1,362) |
| Dividends paid | - | - | (404) | (404) |
| **Balance at December 31, 2001** | **809** | **8,459** | **609** | **9,877** |

For further information to the Stockholders' equity, please see note 16 of the consolidated financial statements.

In the reserves, a non-distributable amount of M€ 240 is included, relating to minority interest.
The cumulative foreign exchange translation adjustments are part of the accumulated other comprehensive income and included in other reserves.
The accumulated other comprehensive income relates mainly to the fair value adjustments of financial instruments in relation to participating interests.

## 7. OTHER LIABILITIES

| (in millions of €) | 2001 | 2000 |
|---|---|---|
| Liabilities to affiliated companies | 5,829 | 3,399 |
| Liabilities to related companies | 214 | 0 |
| Other liabilities | 102 | 25 |
| **Total** | **6,145** | **3,424** |

The liabilities to affiliated companies include mainly liabilities in connection with the cash pooling in the EADS N.V.. The increase is attributable to the transfer of the cash pooling activities related to the former Aerospatiale Matra companies from EADS France to EADS N.V..

## 8. COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees totaling M€ 879 (2000: M€ 789) have been given on behalf of other group companies.

## 9. REMUNERATION

See note 25 of "Consolidated Financial Statements" of EADS.

# SUPPLEMENTARY INFORMATION-AUDITORS' REPORT

## 1. AUDITORS' REPORT

We have audited the accompanying financial statements of EADS N.V., Amsterdam for the year 2001. 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the Netherlands and 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For business reasons pertaining to Dassault Aviation's management, we have been unable to obtain access to the statutory auditors' working papers of this company. As a result, we have not been able to perform the audit procedures we normally would have performed in relation to the Dassault Aviation investment, which is accounted for under the equity method. The level of net income from this equity investment accounted for by EADS N.V. in 2001 represented € 111 million net of tax and the equity investment of EADS N.V. in Dassault Aviation as of December 31, 2001 amounted to € 1,252 million.

EADS N.V. has prepared its financial statements in accordance with accounting principles generally accepted in the Netherlands and 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 and accounting principles generally accepted in the Netherlands 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 accounting principles generally accepted in the Netherlands and from IFRS :
EADS N.V. accounts for its 37.5 % interest in the MBDA joint venture using a proportionate consolidation of 50 % for the balance sheet of MBDA and accounts for a minority interest of 12.5 %. Accounting principles generally accepted in the Netherlands and 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 the Company's cash and cash equivalents by 6 % and minority interest by 11 % in the December 31, 2001 balance sheet and to overstate the Company's cash position (including short term securities) in the 2001 cash flow statement by 2 %.

In the opinion of KPMG Accountants N.V. and Arthur Andersen, except for the effects of such adjustments, if any, as might have been determined to be necessary 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 and accounting principles generally accepted in the Netherlands with regards to development costs, and, in the opinion of KPMG Accountants N.V., except for the effect of the departure from accounting principles generally accepted in the Netherlands and from IFRS with regard to the MBDA proportionate consolidation, the financial statements give a true and fair view of the financial position of the company as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in accordance with IFRS as published by the International Accounting Standards Board and accounting principles generally accepted in the Netherlands and comply in all other respects with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

The Hague, March 15, 2002

KPMG Accountants N.V.

KPMG Accountants N.V.

Rotterdam, March 15, 2002

Arthur Andersen

Arthur Andersen

## 2. APPROPRIATION OF RESULT

Articles 30 and 31 of the Articles of Association provide that the board of directors shall determine which part of the result shall be attributed to the reserves. The general meeting of shareholders may dispose of a reserve only upon a proposal of the Board of Directors and to the extent it is permitted by law and the Articles of Association. Dividends may only be paid after adoption of the annual accounts from which it appears that the shareholders' equity of the company is more than the amount of the issued and paid-in part of the capital increased by the reserves that must be maintained by law.

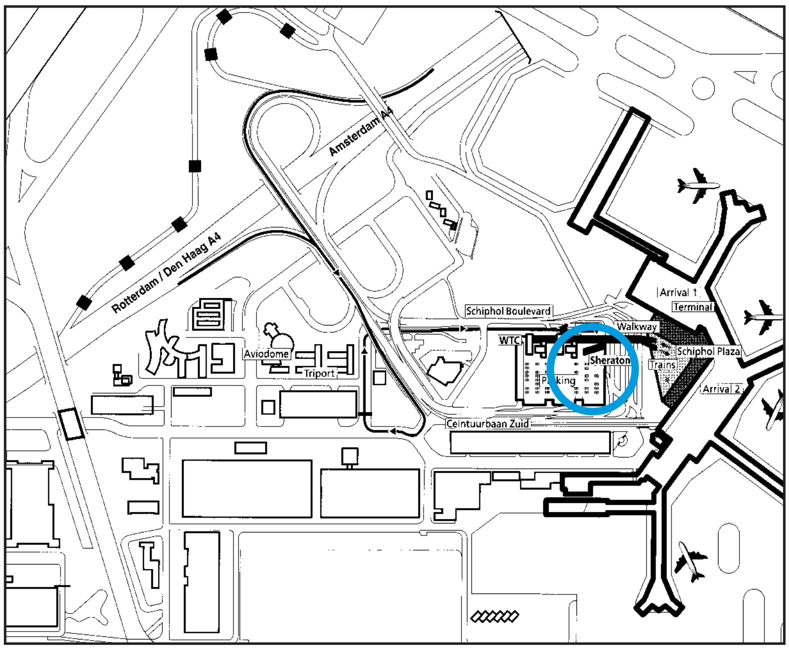
It will be proposed at the Annual General Meeting of Shareholders that from the net profit of M€ 1,372 as shown in the statement of income for the financial year 2001, the amount of M€ 967 is attributed to the other reserves and the remainder, being M€ 405 shall be distributed to shareholders as a dividend of a gross amount of € 0,50 per share.

## 3. SUBSEQUENT EVENTS

No events have taken place after December 31, 2001 that require disclosure. The financial statements have been authorized for issuance by the Board of Directors on March 15, 2002.

# SHAREHOLDER INFORMATION

## How to get to the Sheraton Amsterdam Airport Hotel




A4 : from The Hague / Rotterdam & Amsterdam
From the A4 Motorway take Exit : Schiphol and follow the signs WCT Kantoren / Sheraton until the Sheraton Parking.
Within the parking, take the elevator to the second floor.
On the second floor (you are now in the Traverse walkway), go to the right in the direction of Schiphol Airport Arrival & Departure.
After 50 meters, you will find the entrance of the Sheraton Amsterdam Airport Hotel on your right hand.

**Shareholder Information :**

(free call)

| | |
|---|---|
| France: | 0800 01 2001 |
| Germany: | 00 800 00 02 2002 |
| Spain: | 00 800 00 02 2002 |

@mail box: comfi@eads.net

**European Aeronautic Defence and Space Company EADS N.V.**
Limited liability company (naamloze vennootschap)
Le Carré, Beechavenue 130-132, 1119 PR Schiphol-Rijk, The Netherlands
Registered at the Chamber of Commerce in Amsterdam under number 24288945

(33) 1 53063080