2002 and 2001 audited consolidated financial statements

1 *Introduction and overview*

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

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

EADS organises its businesses into the following five operating Divisions:

- **Airbus:** commercial jet aircraft of more than 100 seats;
- **Military Transport Aircraft:** military transport and mission aircraft;
- **Aeronautics:** civil and military helicopters, military combat and trainer aircraft, regional turboprop aircraft and light commercial aircraft; and civil and military aircraft conversion and maintenance services;
- **Defence and Civil Systems:** missile systems, systems and defence electronics, logistics, training, testing, engineering and other related services, and military and commercial telecommunications solutions; and
- **Space**: satellites, orbital infrastructure, launch vehicles and launch services.

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

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

2 *Accounting considerations*

2.1 Changes in consolidation perimeter

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

In 2001, the consolidated statement of income reflected a 50% consolidation of MBD and a full consolidation of AMM through to the formation of MBDA on 18th December. From 18th December, and as reflected in the 31st December 2001 consolidated balance sheet, EADS has been proportionally consolidating 50% of MBDA within the Defence and Civil Systems Division, in line with its ability to influence operations, with Finmeccanica's holding reflected as a 12.5% minority interest. In 2002, EADS recognised a full year of MBDA's profit and loss account in its consolidated income statement.

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

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

2.2 Dilution gains

The 2001 transactions leading to the formation of Airbus S.A.S. and MBDA resulted in a dilution of EADS' economic ownership in Airbus, MBD and AMM. These transactions required an assessment of the contributed businesses, whose market value, estimated in the course of negotiations, exceeded the carrying value of their consolidated net assets for EADS. Consequently, EADS recognised dilution gains of €2,537 million for a 20% dilution stake in Airbus, and of €257 million for 12.5% of MBD and 62.5% of AMM, all net of transaction-related charges. These dilution gains have been reported in other income and were deemed items of a non-recurring nature by EADS. See "Operating Results – Consolidated Income Statements – Use of EBIT Pre-Goodwill Amortisation and Exceptionals".

2.3 Fair value adjustments

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

2.4 Impairment of assets

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

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

2.5 Research and development expenses

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

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

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

2.6 IAS 39 – Currency hedge accounting

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

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

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

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

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

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

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

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

3 Policies

3.1 Exchange rate management policy

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

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

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

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

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

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

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

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

3.2 Interest rate management policy

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

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

3.3 Sales financing policy

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

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

aims to structure all financing it provides to customers in line with market terms for similarly rated debt so as to facilitate any subsequent sale or reduction of such exposure.

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

Sales financing transactions are generally collateralised by the underlying aircraft. Additionally, Airbus and ATR benefit from protective covenants and from security packages tailored according to the perceived risk and the legal environment. See "Notes to the Consolidated Financial Statements – Note 24: Commitments and contingencies" for further discussion of EADS' sales financing policies and accounting procedures.

Accounting of sales financing transactions in the financial statements

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

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

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

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

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

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

Exposure arising from sales financing activities

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

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

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

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

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

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

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

Airbus sales financing exposure

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

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

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

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

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

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

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

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

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

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

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

ATR sales financing exposure

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

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

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

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

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

3.4 Cash management policy

Cash pooling and cash management

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

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

Funding

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

4 *Operating results*

4.1 Consolidated income statements

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

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

Use of EBIT pre-goodwill amortisation and exceptionals

EADS uses EBIT pre-goodwill amortisation and exceptionals as a key indicator of its economic performance. The term "exceptionals" refers to income or expenses of a non-recurring nature, such as amortisation expenses of fair value adjustments relating to the EADS Merger, the formation of Airbus S.A.S. and the formation of MBDA, and impairment losses. It does not correspond to the definition of extraordinary items under IFRS.

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

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

4.2 Segment information

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

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

[1] **"EBIT PGE"** refers to EBIT pre-goodwill amortisation and exceptionals.

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

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

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

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

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

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

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

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

4.3 EADS results of operations – 2002 to 2001 comparison

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

Consolidated revenues

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

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

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

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

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

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

Consolidated cost of sales

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

Consolidated gross margin

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

Consolidated selling and administrative expenses

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

Consolidated research and development expenses

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

Consolidated other income and other expense

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

Consolidated amortisation of goodwill and impairment tests

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

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

Consolidated income (loss) from investments

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

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

Consolidated interest income (expense)

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

Consolidated other financial result

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

Consolidated income taxes

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

Consolidated net income

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

Earnings per share (EPS)

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

❺ *Statement of changes in consolidated shareholders' equity*

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

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

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

Capital increase

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

Dividends paid

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

Purchase of treasury shares

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

Accumulated other comprehensive income

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

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

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

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

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

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

6 *Movement of net cash position*

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

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

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

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

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

Gross cash flows from operations

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

Changes in working capital

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

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

Cash used for investing activities

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

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

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

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

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

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

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

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

Free cash flows

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

Other changes in financial position

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

7 *Consolidated financial liabilities*

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

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

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

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

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

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

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

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

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

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

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

❽ *Cash and cash equivalents*

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

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