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1 The company

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

2 Summary of significant accounting policies

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

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

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

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

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

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

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

Incentives applicable to performance on contracts are considered in estimated profit rates and are recorded when anticipated contract performance is probable and can be reliably measured.

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

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

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

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

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

Property, plant and equipment – Property, plant and equipment is valued at acquisition or manufacturing costs less accumulated depreciation. Depreciation expense is recognised principally using the straight-line method. The costs of internally produced equipment and facilities include direct material and labour costs and applicable manufacturing overheads, including depreciation charges. Borrowing costs are not capitalised. The following useful lives are assumed: buildings 6 to 50 years; site improvements 6 to 20 years; technical equipment and machinery 3 to 20 years; and other equipment, factory and office equipment 2 to 10 years. The cost of specialised tooling for commercial production is capitalised and generally depreciated using the straight-line method over 5 years or, if more appropriate, using the number of production or similar units expected to be obtained from the tools (sum-of-the-units method). Especially for aircraft production programmes such as the Airbus A380 with an estimated number of aircraft to be produced using such tools, the sum-of-the-units method effectively allocates the diminution of value of specialised tools to the units produced.

Investment property – The group accounts for investment property using the cost model. Investment property is recorded on balance sheet at book value, that is, at cost less any accumulated depreciation and any accumulated impairment losses. The fair value of investment property is reviewed annually by using cash-flow models or by determinations of open market prices.

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

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

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

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

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

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

Inventories – Inventories are measured at the lower of acquisition or manufacturing cost or net realisable value. Manufacturing costs comprise direct material and labour and applicable manufacturing overheads, including depreciation charges. Borrowing costs are not capitalised. Inventory is presented in the consolidated balance sheet net of allocable advance payments received.

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

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

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

EADS uses derivative financial instruments for hedging purposes. Derivative financial instruments used in micro-hedging strategies to offset the Group's exposure to identifiable transactions are accounted for together with the underlying business transactions ("hedge accounting"). The Group's criteria for classifying a derivative financial instrument as a hedge include: (1) the hedge transaction is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk, (2) for cash flow hedges, a forecasted transaction that is subject of the hedge must be highly probable, (3) the effectiveness of the hedge can be reliably measured, (4) there is adequate documentation of the hedging relationships at the inception of the hedge.

With the adoption of IAS 39, all derivative financial instruments have been recognised as assets or liabilities. The opening balance of equity as at 1st January 2001 has been adjusted. Under the new standard, the Group applies hedge accounting for certain foreign currency derivative contracts on qualifying cash flow hedges of future sales as well as for certain interest rate swaps used as cash flow and fair value hedges of future interest payments. In case certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39, changes in fair value of such derivative financial instruments are recognised immediately in "Net income (loss)". Derivative financial instruments with a negative fair value are recorded as "Provisions for financial instruments". Such derivative financial instruments with positive fair values are recorded in "Other receivables and other assets".

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

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

Provisions for financial guarantees corresponding to aircraft sales are recorded to reflect the underlying risk to the Group in respect of guarantees given when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimates can be made of the amount of the obligation. Sales contracts for aircraft may stipulate financial guarantees for lease payments, for the residual values of aircraft, for the repayment of the balance of outstanding borrowings and for the financing of the sales of certain aircraft on behalf of the Group. Guarantees may be sole, joint (e.g., with engine manufacturers) or restricted to a ceiling defined in the contract.

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

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

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

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

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

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

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

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

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

3 Scope of consolidation

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

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

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

4 Acquisitions and disposals

a) Acquisitions

In 2002, no material acquisitions occurred.

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

b) Disposals

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

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

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

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

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

5 Revenues

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

Revenues are comprised of sales of goods and services, as well as of revenues associated with construction contracts accounted for under the percentage-of-completion-method, financed research and development, customer financing revenues and others. For a breakdown of revenues by business segment and geographical region, refer to Note 26, "Segment reporting".

6 Functional costs and other expenses

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

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

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

Personnel expenses are comprised of:

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

7 Other income

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

8 Financial result

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

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

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

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

9 Income taxes

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

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

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

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

In France, the corporate tax rate in effect for 2001 was 33¹/₃ % plus a surcharge of 6%. For the year 2002, the French government established a reduced surcharge of 3% in 2002. Accordingly, deferred tax assets and liabilities for the Group's French subsidiaries were calculated using the enacted tax rate of 35.43% at 31st December 2002 for temporary differences (35.43% at 31st December 2001). The effects of the tax rate reduction on deferred tax assets and liabilities at 31st December 2002 and 2001, are reflected in the reconciliation presented below.

The following table shows a reconciliation from an expected income tax expense – using the Dutch corporate tax rate of 34.5% at 31st December 2002 (35% at 31st December 2001) – to the reported tax expense. The reconciling items represent non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported financial statements according to IFRS rules.

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

Deferred income taxes reflect temporary valuation differences between the carrying amounts of certain assets and liabilities in the financial statements and their tax bases. Future tax impacts from net operating losses and tax credit carry forwards are also considered in the deferred income tax calculation.

Notes to consolidated financial statements

Deferred income taxes are recorded on the following assets and liabilities:

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

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

At 31st December 2002, the Group records €23 million of domestic corporate tax net operating losses ("NOL"), €1,723 million foreign NOL and credit carry forwards (of which Germany: €602 million; UK: €520 million; France: €347 million; Spain: €159 million), and €524 million of German trade tax NOL. The total NOL and tax credit carry forwards represent an amount of deferred tax assets of €654 million, of which €282 million are written down as at 31st December 2002. The amount of the Group's deferred tax valuation allowances is based upon management's estimate of the level of deferred tax assets that will be realised. In future periods, depending upon the Group's financial results, management's estimate of the amount of the deferred tax assets considered realisable may change, and hence the write down of deferred tax assets may increase or decrease.

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

in €m	31st December 2002		31st December 2001	
	Total	thereof non-current	Total	thereof non-current
Deferred tax assets	2,992	1,877	4,288	2,924
Deferred tax liabilities	(2,014)	(1,350)	(806)	(689)
Deferred tax assets, net	978	527	3,482	2,235

The deferred tax recognised directly in equity is as follows:

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

Notes to the consolidated balance sheets

10 Intangible assets

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

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

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

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

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

Impairment tests

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

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

11 Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

12 Investments and long-term financial assets

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

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

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

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

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

Notes to consolidated financial statements

The components of investment in finance leases are as follows:

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

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

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

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

13 Inventories

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

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

14 Trade receivables

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

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

15 Other receivables and other assets

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

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

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

16 Securities

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

17 Shareholders' equity

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

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

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

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

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

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

18 Provisions

Provisions are comprised of the following:

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

Notes to consolidated financial statements

As of 31st December 2002 and 2001, respectively, €3,209 million and €3,019 million of retirement plans and similar obligations, €11 million and €1,627 million of financial instruments as well as €3,194 million and €2,833 million of other provisions mature after more than one year.

a) Retirement plans

When Group employees retire, they receive indemnities as stipulated in retirement agreements, in accordance with regulations and practices of the countries (principally France and Germany) in which the Group operates. French law stipulates that employees are paid retirement indemnities on the basis of the length of service. In Germany, retirement indemnities are principally paid on the basis of salaries and seniority. Certain pension plans are based on salary earned in the last year or on an average of the last three years of employment while others are fixed plans depending on ranking (both salary level and position).

Actuarial assessments are regularly made to determine the amount of the Group's commitments with regard to retirement indemnities. This assessment includes an assumption concerning changes in salaries, retirement ages and long-term interest rates. It comprises all the expenses the Group will be required to pay to meet these commitments. The resulting obligation is recorded in the balance sheet as a provision. Actuarial gains and losses are deferred and recorded over the expected average remaining working lives of the employees participating in each plan when they exceed the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets.

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

Change in provision for pension obligations in 2002

in €m

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

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

Change in defined benefit obligations

in €m

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

The defined benefit obligation at end of the year is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. Actuarial losses of €201 million at 31st December 2002, result mainly from the decrease of the discount rate for pension obligations in Germany from 6.0% to 5.75%.

Change in plan assets

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

The fair value of plan assets at end of the year comprises assets held by long-term employee benefit funds that exist solely to pay or fund employee benefits. Plan assets are not entirely exposed to fluctuations of stock markets, as only the smaller portion of plan assets is invested in such instruments.

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

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

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

The net amount recognised represents the amount recognised as a defined benefit pension liability and is part of the caption "Retirement plans and similar obligations". It includes the funded status, adjusted by actuarial net gains/losses, which do not have to be recognised because they do not meet the recognition criteria.

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

Assumptions

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

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

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

b) Financial instruments

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

Notes to consolidated financial statements

c) Other provisions

Other provisions consist of the following:

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

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

Movements in provisions during the year were as follows:

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

19 Financial liabilities

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

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

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

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

20 Trade and other liabilities

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

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

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

21 Deferred income

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

22 Consolidated cash-flow statement

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

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

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

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

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

Other notes

23 Litigation and claims

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

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

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

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

24 Commitments and contingencies

Contingent assets

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

Commitments and contingent liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25 Information about financial instruments

a) Financial risk management

By the nature of the activities carried out, EADS is exposed to a variety of financial risks, especially foreign currency exchange rate risks and interest rate risks, as explained below. The management and limitation of such financial risks at EADS is carried out by a central treasury department at EADS Headquarters under policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks is in the responsibility of established treasury committees and the Group's Divisions and Business Units.

Market risk

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

EADS' revenues are mainly denominated in US Dollars, whereas a major portion of its costs is incurred in Euros and to a smaller extent in GBP. Consequently, to the extent that EADS does not use financial instruments to cover its net current and future foreign currency exchange rate exposure, its profits would be affected by changes in the Euro/Dollar exchange rate. As the Group intends to generate profits only from its operations and not through speculation on foreign currency exchange rate movements, EADS uses hedging strategies to manage and minimise the impact of exchange rate fluctuations on these profits.

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

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

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

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

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

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

Liquidity risk

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

Credit risk

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

In order to support product sales, primarily at Airbus and ATR, EADS may agree to participate in the financing of customers, on a case-by-case basis, directly or through guarantees provided to third parties. In determining the amount and terms of the financing transaction, Airbus and ATR take into account the airline's credit rating as well as risk factors specific to the intended operating environment of the aircraft and its expected future value. Market yields and current banking practices also serve to benchmark the financing terms offered to customers, including price.

b) Notional amounts

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

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

Year ended 31st December 2002		Remaining period			Total
in €m	Not exceeding 1 year	1 year up to 5 years	More than 5 years		
Foreign exchange contracts:					
Net forward sales contracts	10,852	23,408	6,122		40,382
Purchased put options, net	1,094	343	0		1,437
Written call options, net	1,094	343	0		1,437

Year ended 31st December 2001		Remaining period			Total
in €m	Not exceeding 1 year	1 year up to 5 years	More than 5 years		
Foreign exchange contracts:					
Net forward sales contracts	6,160	19,094	4,800		30,054
Purchased put options, net	3,290	1,507	0		4,797
Written call options, net	4,184	1,507	0		5,691

c) Fair value of financial instruments

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

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

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

The fair value gains and losses at 31st December 2002 on open currency contracts which hedge future foreign currency sales will be transferred from the accumulated other comprehensive income to the income statement when the related transactions occur, at various dates between the balance sheet date and 7 years from the balance sheet date. As at 31st December 2002, a net unrealised gain, net of deferred tax of €1,498 million, was recognised in equity in respect of these contracts.

Financial assets and liabilities – Fair values are based on estimates using various valuations techniques, such as present value of future cash flows. However, methods and assumptions followed to disclose data presented herein are inherently judgmental and involve various limitations like estimates as of 31st December 2002 and 2001, which are not necessarily indicative of the amounts that the Company would record upon further disposal/ termination of the financial instruments.

The methodologies used are as follows:

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

Long-term debt; short-term debt – Neither long term nor short term debt is classified as liabilities held for trading. Therefore, no fair value computation is exercised.

Securities – The fair value of securities included in available-for-sale investments is estimated by reference to their quoted market price at the balance sheet date. If a quoted market price is not available, fair value is determined on the basis of generally accepted valuation methods on the basis of market information available at the reporting date.

Currency and interest rate contracts – The fair value of these instruments is the estimated amount that the Company would receive or pay to settle the related agreements as of 31st December 2002 and 2001.

26 Segment reporting

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

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

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

Business segment information
Year ended 31st December 2002

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

Business segment information
Year ended 31st December 2001

in €m	Airbus	Military Transport	Aero-nautics	Defence and Civil Systems	Space	HQ/Conso.	Consolidated
External revenues	20,549	547	5,065	3,345	2,439	(1,147)	30,798
Internal revenues	179	185	721	131	15	57	1,288
Total revenues	20,728	732	5,786	3,476	2,454	(1,090)	32,086
Result before financial income and income tax	905	(53)	286	132	(131)	1,375	2,514
EBIT pre goodwill amortisation and exceptionals (see definition below)	1,655	1	308	(79)	(222)	31	1,694
Share of net profit of associates	(12)	0	0	(14)	(63)	111	22
Income/loss from other investments, interest and other financial result							(535)
Income taxes							(646)
Minority interest							17
Net income (loss)							1,372
Other information							
Identifiable segment assets (incl. goodwill)	27,264	568	7,187	5,583	3,462	4,651	48,715
Goodwill	7,089	0	1,005	1,464	736	148	10,442
Investments in equity method associates	0	0	0	0	0	1,252	1,252
Segment liabilities	25,532	365	5,869	3,545	2,601	367	38,279
Capital expenditures	1,433	63	281	159	99	161	2,196
Depreciation, amortisation	1,625	21	278	567	121	158	2,770
Impairment losses recognised in income	0	0	0	580	210	0	790
Research and development expenses	1,425	53	132	173	60	(2)	1,841

Notes to consolidated financial statements

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

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

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

Revenues by destination:

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

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

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

27 Stock-based compensation

a) Stock Option Plans

The Board of Directors of EADS approved the establishment of a stock option plan for 2002 for the members of the Executive Committee and senior managers of the Group. Stock options for the purchase of 7,276,700 EADS shares were granted on 9th August 2002, of which 864,000 were granted to the members of the Executive Committee. 1,562 employees of the Group were granted options, which are only exercisable after a vesting period. The vesting period amounts to two years and four weeks from the date of granting with respect to 50% of the options and three years for the remaining options. The options expire ten years after their grant.

The exercise price is equal to €16.96 representing 110% of fair market value of the shares at the date of grant. The options may not be exercised during the period of three weeks before either the Annual General Meeting or the announcement of annual or semi-annual or quarterly results.

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

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

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

b) Employee stock ownership plan (ESOP)

In 2002, the Board of Directors approved an additional ESOP following two ESOPs established in 2001 and in 2000. For the 2002 ESOP, eligible employees were able to purchase a maximum of 500 shares per employee of previously unissued shares. The offer was broken down into two tranches which were available for all employees to choose. The subscription price for tranche A was €7.93, calculated as a discount of 14.5% from the lowest market price on the Paris stock exchange on 11th October 2002 (fixed at €9.28), the day the Board of Directors granted the right to purchase shares within the ESOP 2002. The subscription price for tranche B was the higher of the subscription price for tranche A or 80% of the average opening market price for EADS shares on the Paris stock exchange during the twenty stock market days preceding 12th October 2001, resulting in a subscription price of €8.86.

During a vesting period of at least one year under tranche A or five years under tranche B, employees are restricted from selling the shares, but have the right to receive all dividends paid as well as have the ability to vote at the annual shareholder meetings. EADS sold 2,022,939 ordinary shares with a nominal value of €1.00 under both tranches. No compensation expense was recognised in connection with the ESOP 2002.

28 Related party transactions

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

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

29 Investment property

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

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

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

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

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

30 Interest in joint ventures

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

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

31 Earnings per share

Basic earnings per share – Basic earnings per share is calculated by dividing net income attributable to shareholders by the weighted average number of issued ordinary shares during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

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

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

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

32 Number of employees

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

33 Events after the balance sheet date

Astrium

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

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

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

Euro Medium Term Note ("EMTN") programme

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

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