



European Aeronautic Defence and Space Company

144,807,407 Ordinary Shares

This offering is part of a global offering of ordinary shares, par value Euro 1.00 per share, of the European Aeronautic Defence and Space Company EADS N.V., a public limited liability company (*naamloze vennootschap*) organized under the laws of The Netherlands. The global offering consists of offerings of EADS shares to: (a) institutional investors in Europe, the United States and other jurisdictions, (b) the public in France, Germany and Spain, and (c) qualifying employees of the EADS group. Of the 144,807,407 EADS shares being offered in the global offering, 92,556,965 shares are being offered by EADS (including up to 12,222,385 shares in the employee offering) and 52,250,442 shares by the selling shareholders.

Prior to this offering, there has been no public market for the EADS shares. EADS expects to list its shares under the symbol "EAD" on the *Premier Marché* of ParisBourse^{SBF} SA, in *amtlicher Handel* on the *Frankfurter Wertpapierbörse* and on the Madrid, Bilbao, Barcelona and Valencia Stock Exchanges.

EADS has not registered its shares under the United States Securities Act and may not offer or sell them within the U.S. or to or for the benefit of any U.S. person unless the offer or sale would qualify for an exemption from such registration. Accordingly, the EADS shares are being offered (1) in the U.S. only to qualified institutional buyers (as defined in Rule 144A of the U.S. Securities Act) and (2) outside of the U.S. in reliance on Regulation S under the U.S. Securities Act and the laws of the other jurisdictions that apply to such offers. For a summary of certain restrictions on transfer, see "Transfer Restrictions."

See "Investment Considerations" beginning on page 18 for a discussion of certain factors that should be considered in connection with an investment in the EADS shares.

The price per EADS share offered to institutional investors is Euro 19.00. Individuals participating in the retail offering in France, Germany and Spain are being offered EADS shares at Euro 18.00 per EADS share, reflecting a discount of Euro 1.00 from the price per EADS share offered to institutional investors. In addition, qualifying employees of the EADS group are being offered EADS shares at a price of Euro 15.30 per EADS share, representing a discount of 15% from the retail price.

The underwriters have an option to purchase up to an additional 21,721,006 shares from EADS and the selling shareholders.

Delivery of the EADS shares will be made on or about July 13, 2000.

Joint Global Coordinators and Bookrunners

ABN AMRO Rothschild

Deutsche Bank

Joint Global Coordinators

BNP PARIBAS

Goldman Sachs International

**Santander Central Hispano
Investment**

Global Institutional Offering

ABN AMRO Rothschild

Deutsche Bank

BNP PARIBAS

Goldman Sachs International

SG Investment Banking

Retail Offering

BNP PARIBAS

Deutsche Bank

**Santander Central Hispano
Investment**

The date of this offering memorandum is July 9, 2000.

Joint Global Coordinators and Bookrunners

ABN AMRO Rothschild

Deutsche Bank

Joint Global Coordinators

BNP PARIBAS

Goldman Sachs International

**Santander Central Hispano
Investment**

Global Institutional Offering

Joint Global Lead Managers and Bookrunners

ABN AMRO Rothschild

Deutsche Bank

Joint Lead Managers

BNP PARIBAS

Goldman Sachs International

SG Investment Banking

Senior Co-Lead Managers

Robert Fleming & Co. Limited

Santander Central Hispano Investment

Co-Lead Managers

BBVA Bolsa

Crédit Lyonnais

Dresdner Kleinwort Benson

J.P. Morgan Securities Ltd.

Co-Managers

Bayerische Landesbank

Crédit Agricole Indosuez Lazard

Crédit Industriel et Commercial (CIC)

HypoVereinsbank

Nomura International

Banca IMI

Retail Offering

Bookrunners and Lead Managers

France

BNP PARIBAS

Germany

Deutsche Bank

Spain

**Santander Central Hispano
Investment**

Global Managers

**ABN AMRO Rothschild
Deutsche Bank**

Global Manager

ABN AMRO Rothschild

Global Managers

**ABN AMRO Rothschild
Deutsche Bank**

Co-Lead Managers

**CDC Marchés
Crédit Agricole Indosuez
Lazard**

Co-Lead Managers

**COMMERZBANK
Aktiengesellschaft
DG BANK
Deutsche Genossenschaftsbank AG
Landesbank Baden-
Württemberg
WestLB Panmure**

Co-Lead Managers

**Banco Popular
Bankinter
BBVA Bolsa
Caja Madrid
CECA**

Co-Managers

**Banque Fédérative du Crédit
Mutuel (BFCM)
CCF Charterhouse
Union de Garantie et de
Placement (UGP)**

Co-Managers

**Bankgesellschaft Berlin
Aktiengesellschaft
Baden-Württembergische
Bank
Aktiengesellschaft
Bayerische Landesbank
Girozentrale
Dresdner Kleinwort Benson
HSBC Trinkaus & Burkhardt
HypoVereinsbank**

Co-Managers

**Banco Zaragozano
Bilbao Bizkaia Kutxa
Renta 4**

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CERTAIN INFORMATION REGARDING OFFERING DOCUMENTS

EADS confirms that, to its knowledge following reasonable inquiry, the information contained in this offering memorandum relating to EADS is true and correct in all material respects and that there are no omissions which would, in the context of the global offering, make any statement relating to EADS in this offering memorandum misleading in any material respect.

No person is authorized to give any information or make any representation not contained in this offering memorandum in connection with this offering and, if given or made, such information or representation must not be relied on as having been authorized by EADS, the selling shareholders or any of the underwriters. Neither the delivery of this offering memorandum nor any sale made in connection with this offering shall, under any circumstances, create any implication that there has been no change in the activities described herein since the date hereof or that the information contained herein is correct as of any time subsequent to the date of this offering memorandum. No representation or warranty, express or implied, is made by any underwriter as to the accuracy or completeness of any information contained in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by any underwriter as to the past or the future.

In making an investment decision, potential investors must rely upon their own examination of EADS and the entities which have been combined to form EADS, of the terms of this offering and of the related financial information. In particular, potential investors should consult their own professional advisors for an understanding of the differences between generally accepted accounting principles in France, Spain and the United States and International Accounting Standards (“IAS”), and how those differences might affect the financial information included in this offering memorandum.

This offering memorandum does not constitute an offer to sell or the solicitation of any offer to buy EADS shares. The distribution of this offering memorandum and the offering of shares is restricted by law in certain jurisdictions and this offering memorandum may not be used for the purpose of, or in connection with, any offer to or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. Potential purchasers of EADS shares are required by EADS, the selling shareholders and the underwriters to inform themselves about and to observe any restrictions as to the offering of EADS shares and the distribution of this offering memorandum. None of EADS and the selling shareholders nor any of the underwriters accepts any legal responsibility for any violation by any person, whether or not a prospective purchaser of EADS shares, of any of such restrictions.

This offering memorandum is not being used in France in connection with the public, institutional or employee offerings there. Offers and sales in connection with these offerings in France must be made pursuant to the *Prospectus Définitif*, a French language document composed of a *Note d'Opération Préliminaire*, a *Note d'Opération Définitive* and the *Document de Référence* relating to EADS which was registered with the French *Commission des opérations de bourse* (the "COB") on May 12, 2000 under Number R 00-223. The *Note d'Opération Préliminaire* received the visa of the COB dated June 21, 2000 under Number 00-1119. The *Note d'Opération Définitive* received the visa of the COB dated July 9, 2000 under Number 00-1243.

This offering memorandum is not being used in Germany in connection with the public, institutional and employee offerings there. Offers and sales in connection with these offerings in Germany must be made pursuant to a prospectus (*Verkaufsprospekt*) to be publicly available in Germany.

This offering memorandum is not being used and should not be distributed in Spain in connection with the public, institutional and employee offerings there. In Spain, EADS has requested mutual recognition of the *Prospectus Définitive* in accordance with Article 26 of Royal Decree 291/1992 of 27 March on Issues and Public Offerings of Securities and filed with the *Comisión Nacional del Mercado de Valores* (the "CNMV") a *Folleto Informativo* comprising a Spanish language version of the *Prospectus Préliminaire* together with the Spanish supplement required by such law. Offers and sales in connection with the public, institutional and employee offerings in Spain must be made pursuant to the *Folleto Informativo*, which was registered on June 22, 2000, except for the translation of the *Note d'Opération Définitive*, which is to be filed with the CNMV on July 10, 2000 under the mutual recognition regime. Copies of the *Folleto Informativo* are available for inspection at the offices of the CNMV, at the offices of the Spanish Stock Exchanges, at the offices of the underwriters located in Spain and at the offices of EADS.

No document issued in connection with the sale of the EADS shares may be passed on in the United Kingdom other than to persons who are authorized or exempt persons within the meaning of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) (or any order made thereunder) or to other persons of a kind described in Article 11(3) (other than 11(3)(c)) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended).

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The distribution of this offering memorandum and the offering and sale of the Shares in certain jurisdictions may be restricted by law. EADS, the selling shareholders and the underwriters require persons into whose possession this offering memorandum comes to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on the offering and sale of the Shares, see "Underwriting" and "Transfer Restrictions." This offering memorandum does not constitute an offer of, or an invitation to purchase any of the Shares in any jurisdiction in which such offer or invitation would be unlawful.

NOTICE TO NEW HAMPSHIRE RESIDENTS

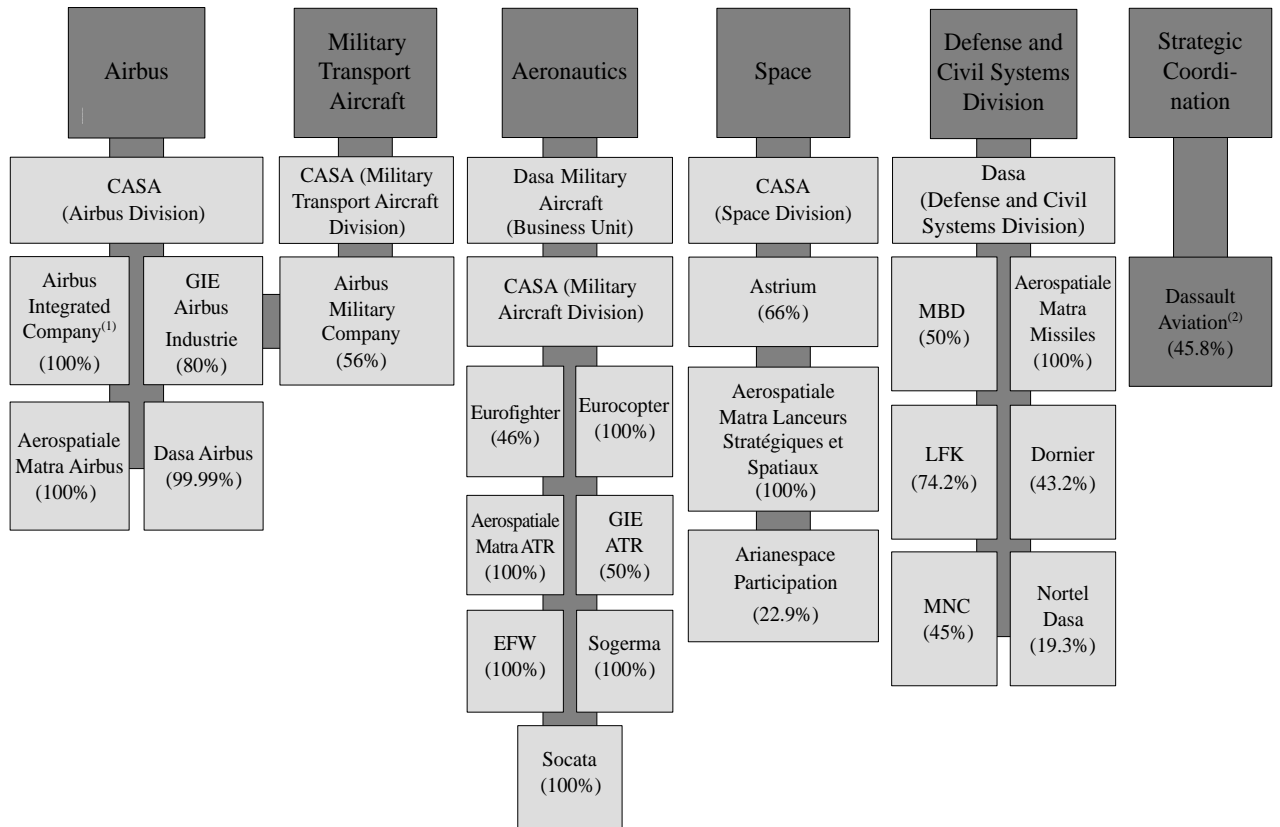
NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO UNITED STATES PERSONS

This offer, as well as the transactions described in this offering memorandum under which Aerospatiale Matra shareholders are to receive EADS shares in exchange for Aerospatiale Matra shares simultaneously with the liquidation of Aerospatiale Matra, involve the securities of a foreign company. These transactions are subject to disclosure requirements of a foreign country that are different from those of the United States. Financial statements included in the document, if any, have been prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies. It may be difficult for you to enforce your rights and any claim you may have arising under the federal securities laws, since the issuer is located in a foreign country, and some or all of its officers and directors may be residents of a foreign country. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court's judgment. You should be aware that the issuer may purchase securities otherwise than under the exchange offer, such as in open market or privately negotiated purchases.

The contents of EADS' website are not part of this offering memorandum.

EADS SIMPLIFIED GROUP STRUCTURE



(1) For further information regarding the planned combination of Airbus activities in Airbus Integrated Company, see “Recent Developments and Outlook.”

(2) For further information regarding the allocation of this shareholding to Strategic Coordination, see “Business Description — Investment — Dassault Aviation.”

The percentages indicated in the chart above represent the direct and indirect holdings of EADS in the companies concerned, excluding percentages held by other shareholders.

SUMMARY OF THE OFFERING MEMORANDUM

This summary highlights information contained elsewhere in this offering memorandum. It is not complete and may not contain all the information that you should consider before investing in the EADS shares. Prospective investors should read this entire offering memorandum carefully, including the "Investment Considerations" section beginning on page 18 and the financial statements beginning on page F-1.

DaimlerChrysler Aerospace AG ("Dasa AG"), DaimlerChrysler Luft- und Raumfabrik Holding Aktiengesellschaft ("DCLRH"), a 93.83% subsidiary of DaimlerChrysler AG ("DaimlerChrysler"), Lagardère SCA ("Lagardère") and Société de Gestion de Participations Aéronautiques ("SOGEPA") (a French state holding company) have entered into an agreement to combine the activities of Aerospatiale Matra and Dasa AG (with the exception of certain of its assets and liabilities) ("Dasa") into EADS. The same parties, together with Aerospatiale Matra and Sociedad Estatal de Participaciones Industriales ("SEPI") (a Spanish state holding company), have entered into another agreement in order to integrate Construcciones Aeronauticas SA ("CASA") into EADS. See "Description of the EADS Transaction."

For presentational purposes, this document presents the EADS group as it will be after the completion of the contributions to be made by Aerospatiale Matra, Dasa AG and SEPI to EADS to combine the activities of Aerospatiale Matra, Dasa and CASA into EADS (the "Completion") and the global offering (these transactions are together referred to as the "Transactions"). Where the context so requires, references in this offering memorandum to the activities of EADS are, to the extent they relate to periods prior to the Completion, to the activities conducted by Aerospatiale Matra, Dasa and CASA. References herein to "EADS" or the "Company" include EADS and its subsidiaries and affiliates after the Completion.

Various amounts and percentages have been rounded and, accordingly, may not total. EADS divisional revenues are presented throughout this offering memorandum before adjustments and eliminations.

EADS

With pro forma combined annual revenues of over Euro 22.5 billion in 1999, EADS is Europe's premier aerospace and defense company and the third largest aerospace and defense company in the world. In terms of market share, EADS is among the top two manufacturers of commercial aircraft, civil helicopters, commercial space launch vehicles and missiles, and a leading supplier of military aircraft, satellites and defense electronics. In 1999, it generated approximately 76% of its sales in the civil sector and 24% in the military sector.

The creation of EADS marks a critical step in the consolidation of the European aerospace and defense industries, started in December 1997 when a group of European heads of state and government invited the major European companies in these industries to seek strategic and industrial mergers.

EADS combines the businesses of:

- Aerospatiale Matra in the areas of commercial aircraft manufacturing (Airbus), military and commercial helicopter manufacturing (Eurocopter), aircraft maintenance and conversion, space systems (e.g., Arianespace, Astrium), missiles and telecommunications;
- Dasa in the areas of commercial aircraft manufacturing (Airbus), military and commercial helicopter manufacturing (Eurocopter), military aircraft manufacturing (e.g., Eurofighter), military and commercial aircraft maintenance and conversion, space systems (e.g., Arianespace, Astrium), missiles, missile systems, telecommunications and defense systems; and
- CASA in the areas of commercial aircraft manufacturing (Airbus), military aircraft manufacturing (e.g., Eurofighter), military transport aircraft manufacturing, military and commercial aircraft maintenance and conversion, and space systems (Arianespace).

EADS plans to organize its activities in these areas into the following five divisions: (1) Airbus, (2) Military Transport Aircraft, (3) Aeronautics (other than Airbus and Military Transport Aircraft), (4) Space and (5) Defense and Civil Systems. For a simplified diagram depicting the organization of these activities within these five divisions, see the illustration on the previous page.

Divisions

- **Airbus.** Airbus Industrie is one of the world's leading suppliers of commercial aircraft of more than 100 seats. Its market share of annual deliveries worldwide has grown steadily from 15% in 1990 to 32% in 1999. At December 31, 1999, its backlog of orders stood at 49% of total worldwide backlog, representing a 10% increase in volume from December 31, 1998. Airbus Industrie's steady growth is also reflected in increased revenues, which rose from Euro 11.6 billion in 1997 to Euro 13.3 billion in 1998 and Euro 16.7 billion in 1999. EADS will hold 80% of the membership interests of Airbus Industrie and will share, to that extent, in the economic success of Airbus Industrie. For 1999, the Airbus Division of EADS earned pro forma revenues of Euro 12.6 billion, representing 54% of EADS' total pro forma revenues.
- **Military Transport Aircraft.** The Military Transport Aircraft Division (the "MTA Division") manufactures and sells light and medium military transport aircraft and is responsible for the A400M project regarding the development of a European heavy military transport aircraft. In addition, the MTA Division produces and sells special mission aircraft, which are derived from an existing platform and dedicated to a specialized military task, such as maritime surveillance or antisubmarine warfare. The MTA Division is also involved in the aerostructures business, acting as supplier to aerospace manufacturers worldwide.
- **Aeronautics.** The Aeronautics Division conducts EADS' aeronautics activities outside of the Airbus and Military Transport Aircraft Divisions. Through Eurocopter, EADS is the world's leading producer of helicopters for the civil market and the leader in the European military helicopter market. Management expects Eurocopter sales in the European military market to increase substantially due to demand for the Tiger attack helicopter and the NH90 military transport helicopter developed for a number of European governments. As one of the primary developers of the Eurofighter, EADS is well positioned to become one of the leading manufacturers for this type of military combat aircraft. In addition to Eurocopter and Eurofighter, the Aeronautics Division has significant businesses in the areas of regional aircraft (ATR), light aircraft (Socata) and aircraft conversion and maintenance (Sogerma and EFW). For 1999, the Aeronautics Division earned pro forma revenues of Euro 4.3 billion, representing 18% of EADS' total pro forma revenues.
- **Space.** EADS is the third largest space systems manufacturing company in the world after Boeing and Lockheed Martin, and the leading European supplier of satellites, orbital infrastructure and launchers. Largely through its subsidiaries Astrium and Aerospatiale Matra Lanceurs (AML) and its business unit, CASA space division, the EADS Space Division designs, develops and manufactures satellites, orbital infrastructure and launchers. EADS also provides launch services, as well as services related to telecommunications and earth observation satellites, through its shareholdings in Arianespace and other service providers. Furthermore, EADS is active in the fields of optronics (*e.g.*, earth and star sensors) and laser technologies through its subsidiaries SODERN and CILAS. For 1999, the pro forma revenues of the Space Division amounted to Euro 2.5 billion, or 11% of EADS' total pro forma revenues.
- **Defense and Civil Systems.** The Defense and Civil Systems division (the "DCS Division") is active in the fields of missiles and missile systems, defense electronics, telecommunications and services. Based on 1999 revenues, EADS is the largest manufacturer of tactical missile systems in Europe and the second largest in the world. EADS is the third largest supplier of defense electronics in Europe and, with its partner Nortel Networks, plays a significant role among multinational telecommunications companies active in the military and civil markets. On a pro forma basis, the DCS Division earned revenues of Euro 3.8 billion for 1999, representing 16% of EADS' total pro forma revenues.

Strategy

EADS is a recognized leader in almost every sector of its operations, in significant part due to the longstanding collaboration among Aerospatiale Matra, Dasa and CASA in various major projects, including the Airbus consortium, Eurocopter, Eurofighter and Arianespace. The management of EADS (“Management”) expects the integration of Aerospatiale Matra, Dasa and CASA to build upon these existing areas of successful cooperation by providing EADS with (1) a reinforced marketing organization with a stronger customer relationship network, (2) an extended global reach, (3) a more cohesive management structure, (4) a broader technological base and additional engineering expertise, and (5) greater economies of scale.

EADS’ objective is to be among the top two companies in every major market that it serves. EADS is positioning itself to compete and prosper in industries undergoing structural consolidation, and to play an enlarged role in a new competitive environment. The integration of Aerospatiale Matra, Dasa and CASA will entail a wide range of initiatives designed not only to improve margins, but also to enable EADS to take better advantage of future market opportunities in its core businesses, to respond better to the demands of its customers in its European home markets and to enlarge its export markets. Through this integration, EADS aims to maximize value for its shareholders and customers, and to be highly attractive to its employees.

To achieve this goal, EADS intends to embark on the following key strategic steps:

- **Capture integration benefits inherent in businesses that have been successfully cooperating for many years.** Joint programs among Aerospatiale Matra, Dasa and CASA account for approximately 70% of EADS’ total revenues. A unified management and shareholder structure will enable these joint businesses to execute their strategies more effectively and to apply a cross-divisional cooperation approach when appropriate.
- **Reap combination synergies.** EADS intends to realize synergies by rationalizing business portfolios and marketing systems, eliminating duplication, harmonizing processes, optimizing research and development expenses and activities, strengthening its purchasing position and coordinating its bidding processes. These measures will aim at increasing margins and boosting profitability across product areas. Overall, EADS believes that these synergies will enable it to achieve its medium-term objective of an operating margin of 8% by 2004 (after taking into account Airbus development of the A3XX family of ultra-large aircraft and before amortization of goodwill). See “Recent Developments and Outlook.”
- **Drive the consolidation process in the aerospace and defense industry.** Aerospatiale Matra, Dasa and CASA collectively have a long and successful history of participation in almost every major European aerospace and defense industry partnership. They have worked in partnerships not only with each other (*e.g.*, Airbus consortium, Eurocopter, Eurofighter, and Arianespace), but also with other major European and American companies. EADS offers greater scale and a wider range of products and expertise than its individual founders, and consequently will be better positioned to lead the consolidation in its industry. In particular, it anticipates improved opportunities to initiate strategic alliances with the greatest long-term potential to expand market presence and share and to maximize profitability. Management believes that the benefits of this strategic positioning have already been demonstrated by the announcement in April 2000 of a prospective joint venture between EADS and Finmeccanica to create an European military aircraft company, strengthening their position in military aircraft and aerostructures.

Moreover, EADS is pursuing a number of other promising consolidation initiatives, such as (1) the consolidation of the European missile systems activities of EADS, Finmeccanica and BAE SYSTEMS plc, (2) the enlargement of Astrium’s satellites and orbital infrastructure activities with the contribution of Finmeccanica’s Alenia Spazio assets, (3) the creation of the Airbus Integrated Company, which would combine the Airbus interests of EADS and BAE SYSTEMS into a single company, (4) potential transatlantic partnerships with key U.S. players

to gain better access to the American defense market, and (5) participation in privatizations of aerospace and defense companies. See “Recent Developments and Outlook.”

- **Exploit the enlarged technological base to satisfy client demands for complex, integrated solutions.** EADS intends to leverage the combined technological expertise of Aerospatiale Matra, Dasa and CASA to satisfy the most stringent and complex customer specifications and to develop strongly differentiated applications. EADS plans to continue the focus of the three companies on state-of-the-art technology and innovation. Management believes that the integration of Aerospatiale Matra, Dasa and CASA will provide EADS with a technological platform that enhances its capability to innovate at the highest level across a broad spectrum of product areas and to meet customer demands through a range of new-generation products.

The Company’s headquarters are located at Drentestraat 24, 1083 HK Amsterdam, The Netherlands.

THE GLOBAL OFFERING

Total Shares offered	144,807,407 ordinary shares, par value Euro 1.00 per share, of EADS (“Shares”) (excluding the underwriters’ over-allotment option).
Shares offered by EADS	92,556,965 Shares (including up to 12,222,385 Shares in the employee offering).
Shares offered by the Selling Shareholders	52,250,442 Shares, of which 26,188,461 Shares by the French State, 10,955,472 Shares by Lagardère (including 6,257,160 Shares through MCP, a French <i>société anonyme</i> wholly owned by Lagardère) and 15,106,509 Shares by Istroise de Participations (the “French Financial Institutions”), which is a company jointly owned by BNP PARIBAS and AXA.
Over-allotment option	The underwriters have an option to purchase up to an additional 21,721,006 Shares from EADS and the selling shareholders.
The global offering	The global offering consists of: (a) an international offering of 52,250,442 Shares to institutional investors in Europe, the United States and other jurisdictions, (b) a retail offering of 80,334,580 Shares to individuals in France, Germany and Spain, and (c) an offering of up to 12,222,385 Shares to qualifying employees of EADS. Shares offered by EADS in the employee offering are not being underwritten.
Preferential allocation	The aggregate number of Shares to be sold to retail investors in the public offering are being preferentially allocated by the underwriters to: <ul style="list-style-type: none">• eligible shareholders of Aerospatiale Matra and• individuals who submitted orders on or before July 3, 2000. For further details on the preferential allocation, see “Underwriting.”
Offering price	The price per Share offered to institutional investors is Euro 19.00. Individuals participating in the retail offering in France, Germany and Spain are being offered Shares at Euro 18.00 per Share, reflecting a discount of Euro 1.00 from the price per Share offered to institutional investors. In addition, qualifying employees of the EADS group are being offered Shares at a price of Euro 15.30 per Share, representing a discount of 15% from the retail offering price.
Listing	EADS expects to list the Shares on the <i>Premier Marché</i> of ParisBourse ^{SBF} SA (the “Paris Stock Exchange”), in <i>amtlicher Handel</i> on the <i>Frankfurter Wertpapierbörse</i> (the “Frankfurt Stock Exchange”) and on the Madrid, Bilbao, Barcelona and Valencia Stock Exchanges (the “Spanish Stock Exchanges”).

**Proposed Symbol for Paris,
Frankfurt and Spanish Stock
Exchanges**

EAD

“When issued” trading

Trading of the Shares on a “when issued” basis is expected to commence on July 10, 2000.

Settlement.....

The Shares will be delivered in book-entry form through the facilities of SICOVAM S.A., Clearstream Banking AG, *Servicio de Compensación y Liquidación de Valores, S.A.* (“SCLV”), Euroclear or Clearstream Banking S.A. (formerly Cedelbank). Accordingly, persons purchasing Shares must receive delivery of them through an account with a financial institution that is a member of one of these clearing systems. Each person owning an interest in Shares must rely on the procedures of the relevant clearing system and institutions having agreements with them to exercise or be entitled to any rights of a shareholder.

It is expected that delivery of the Shares will be made against payment thereof in immediately available funds on or about July 13, 2000. Except to the extent required to effect the initial delivery of the Shares on this third day after the beginning of “when issued trading,” transactions on the Frankfurt Stock Exchange must be settled on the second business day following the trade. Transactions on the Paris Stock Exchange and the Spanish Stock Exchanges must be settled on the third business day following the trade, subject to certain exceptions for the Paris Stock Exchange.

**Identification number
of Shares.....**

The ISIN number for the Shares is NL 000 023 519 0.

Lock-up.....

Each of EADS and the French State, SOGEP, Lagardère, MCP SOGEADE, the French Financial Institutions, DaimlerChrysler, Dasa AG and SEPI have agreed that, during a period of 180 days from the date of this offering memorandum, it will not, subject to limited exceptions, dispose of, directly or indirectly, Shares or any securities convertible into or exercisable or exchangeable for Shares, without the prior written consent of the representatives of the underwriters. For further details, see “Underwriting.”

**Shares outstanding after the
global offering**

809,610,793 Shares (assuming full exercise of the underwriters’ over-allotment option and issuance of 12,222,385 Shares in the employee offering).

Share ownership

After the global offering (assuming full exercise of the underwriters’ over-allotment option, the issuance of 12,222,385 Shares in the employee offering and exercise in full of the employee stock options granted for the purchase of 5,214,884 Shares), 30% of the EADS Shares will be held by Société de Gestion de l’Aéronautique de la Défense et de l’Espace (“SOGEADE”), a French partnership limited by shares (*société en commandite par actions*) whose share capital will be held (a) 50% by SOGEP and (b) 50% by Désirade (a French *société par actions simplifiée* whose share capital will be held by Lagardère (74%) and the French Financial Institutions (26%)). For a discussion of certain relationships between Lagardère and the French Financial Institutions, see “Principal and Selling Shareholders — Transfer of EADS Shares” and “Description of the EADS Transaction — Imple-

mentation of the Business Combination Agreements — Creation of SOGEADE and Désirade.” Dasa AG, an indirect subsidiary of DaimlerChrysler, will own 30% of the EADS Shares. Thus, 60% of the EADS Shares will be held in equal proportions by SOGEADE and DaimlerChrysler, who will jointly control EADS through a Dutch law contractual partnership (the “Contractual Partnership”). SEPI, also being a party to the Contractual Partnership, will hold 5.48% of these Shares. The public (including EADS employees) will directly hold 30.65% of these Shares and DaimlerChrysler and the French State will directly hold 2.73% and 1.14% of these Shares. For further details, see “Principal and Selling Shareholders.”

Use of proceeds.....

The net proceeds to EADS from the global offering, after expenses, underwriting commissions and offering price discounts for retail investors and employees, are estimated to be approximately Euro 1.581 billion (assuming full exercise of the underwriters’ over-allotment option). EADS intends to use its net proceeds from the global offering to strengthen its capital structure, which in turn will enable it to use planned cash flow to pursue projects supporting its strategic objectives. See “Business Description.” For instance, EADS expects this strengthened capital structure will allow it to respond swiftly as global acquisition and alliance opportunities arise in the consolidating aerospace and defense industries. A stronger financial position would also enable EADS to timely adapt its development and investment programs, notably in new aircraft, as well as its manufacturing operations as market conditions dictate, especially in the commercial aviation segment.

SUMMARY PRO FORMA FINANCIAL INFORMATION

The following summary unaudited pro forma combining statements of income and balance sheets of EADS have been prepared to illustrate the pro forma effects of the transactions combining Aerospatiale Matra, Dasa and CASA to form EADS. The unaudited pro forma combining statements of income give effect to these transactions as if they had occurred on January 1, 1997. The unaudited pro forma combining balance sheets give effect to these transactions as if they had occurred on December 31, 1999. The unaudited pro forma combining financial information does not reflect the proceeds that may be raised in the global offering.

EADS has prepared the unaudited pro forma combining financial information, and intends to present its future consolidated financial statements, in accordance with International Accounting Standards ("IAS"), except that all development costs will be expensed as incurred. IAS require that development costs be capitalized as an intangible asset in the period in which they are incurred if certain criteria for asset recognition are met. As a result, future audit opinions on EADS' financial statements will contain a qualification for this departure from IAS.

The summary unaudited pro forma combining financial information has been derived from the following financial information included in this document:

- the audited combined financial statements of Dasa and the audited financial statements of CASA for 1997, 1998 and 1999, as well as the audited consolidated financial statements of Aerospatiale Matra for 1999 (the "Audited Financial Statements");
- the unaudited pro forma combined financial information of Aerospatiale Matra for 1997 and 1998 (the "Unaudited Aerospatiale Matra Pro Forma Financial Information"); and
- the reconciliations of these Audited Financial Statements and the Unaudited Aerospatiale Matra Pro Forma Financial Information to IAS as adopted by EADS (the "IAS Reconciliations").

The audited combined financial statements of Dasa do not reflect the results of operations attributable to, or the value of assets and liabilities, which are not to be contributed to EADS, in particular the aero engine manufacturing and maintenance activities of MTU München GmbH and its subsidiaries ("MTU") and certain other activities. In this document, all references to financial statements, balance sheets, statements of income and statements of cash flows of Dasa refer to the audited combined financial statements of Dasa included in this document. Dasa is defined for this purpose in Note 1 of such audited combined financial statements.

The summary unaudited pro forma combining financial information is provided for illustrative purposes only and does not purport to represent what the financial position, results of operations or cash flows of EADS would actually have been if the transactions creating EADS had occurred as of the dates indicated or to project the combined financial position, results of operations or cash flows for any future date or period. The summary unaudited pro forma combining financial information should be read in conjunction with "Pro Forma Combining Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Audited Financial Statements, the separate audited financial statements of Aerospatiale and Matra Hautes Technologies ("MHT"), the Unaudited Aerospatiale Matra Pro Forma Financial Information and the IAS Reconciliations, and related notes thereto, contained elsewhere in this offering memorandum.

**Unaudited Pro Forma Combining Statements of Income for the
Years Ended December 31, 1997, 1998 and 1999**

	<u>Year ended December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(in millions of Euro)		
Revenues.....	18,865	20,584	22,553
Cost of sales.....	<u>(15,270)</u>	<u>(16,489)</u>	<u>(18,278)</u>
Gross margin.....	<u>3,595</u>	<u>4,095</u>	<u>4,275</u>
Selling, administrative and other expenses.....	(2,377)	(2,378)	(2,213)
Research and development expenses	(1,090)	(1,232)	(1,324)
Other income.....	458	710	475
Goodwill depreciation.....	<u>(403)</u>	<u>(410)</u>	<u>(398)</u>
Income before financial income and income taxes.....	183	785	815
Financial income (expense), net.....	<u>(1,747)</u>	<u>1,005</u>	<u>(1,846)</u>
Income (loss) before income taxes	(1,564)	1,790	(1,031)
Income taxes.....	596	(585)	24
Minority interests.....	<u>(15)</u>	<u>(16)</u>	<u>(2)</u>
Net income (loss).....	<u><u>(983)</u></u>	<u><u>1,189</u></u>	<u><u>(1,009)</u></u>

Unaudited Pro Forma Combining Balance Sheets as at December 31, 1998 and 1999

	<u>Year ended December 31,</u>	
	<u>1998</u>	<u>1999</u>
	(in millions of Euro)	
Assets		
Intangible assets.....	7,854	7,710
Property, plant and equipment, net	7,452	7,950
Investments and long-term financial assets	3,109	3,931
Fixed assets	<u>18,415</u>	<u>19,591</u>
Inventories.....	1,501	1,045
Trade receivables.....	4,069	4,509
Other receivables.....	3,055	3,360
Securities	722	1,575
Cash and cash equivalents.....	4,132	3,175
Non-fixed assets ⁽¹⁾	<u>13,479</u>	<u>13,664</u>
Deferred taxes	1,614	1,734
Prepaid expenses	474	651
Total assets	<u>33,982</u>	<u>35,640</u>
Liabilities and stockholders' equity		
Stockholders' equity	<u>9,763</u>	<u>8,123</u>
Minority interests	104	159
Accrued liabilities	5,963	7,421
Financial liabilities.....	4,511	5,696
Trade liabilities	3,896	3,734
Other liabilities.....	<u>6,054</u>	<u>6,416</u>
Liabilities	<u>14,461</u>	<u>15,846</u>
Deferred taxes	1,633	1,345
Deferred income	<u>2,058</u>	<u>2,746</u>
Total liabilities	<u>24,219</u>	<u>27,517</u>
Total liabilities and stockholders' equity	<u>33,982</u>	<u>35,640</u>

(1) Including amounts to be realized in excess of one year.

Orders Booked (Pro Forma)⁽¹⁾

	<u>Year ended December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(in billions of Euro)		
Division			
Airbus ⁽²⁾	20.5	25.4	20.7
Military Transport Aircraft	0.0	0.2	0.6
Aeronautics	4.5	5.9	4.9
Space	3.3	2.9	2.2
Defense & Civil Systems	4.5	5.2	4.3
TOTAL	<u>32.8</u>	<u>39.6</u>	<u>32.7</u>

Order Backlog (Pro Forma)⁽¹⁾

Division	As at December 31,		
	1997	1998	1999
	(in billions of Euro)		
Airbus ⁽²⁾	49.3	63.4	79.5
Military Transport Aircraft	0.4	0.3	0.7
Aeronautics	5.4	7.7	8.8
Space	6.6	4.8	4.4
Defense & Civil Systems	6.9	8.4	9.0
TOTAL	68.6	84.6	102.4

(1) Without options.

(2) Based on catalog prices.

The pro forma order backlog at the end of 1999 was equivalent to approximately four years of pro forma revenues at 1999 levels.

INVESTMENT CONSIDERATIONS

Prior to making an investment decision, prospective purchasers of the Shares should carefully consider all of the following investment considerations as well as other information contained in this offering memorandum.

Aircraft Market Cyclical

In 1999 the pro forma combined revenues generated from EADS' Airbus and ATR segments represented more than half of EADS' pro forma combined revenues. Historically, the commercial passenger aircraft market has shown cyclical trends due in part to the sensitivity of passenger demand in the air travel market to growth in gross domestic product (GDP). The growth in EADS' commercial aircraft activities has consequently been closely correlated to growth in GDP. Other factors, however, play an important role such as the average age and technical obsolescence of the fleet relative to new aircraft, passenger load factors, airline pricing policies and deregulation. EADS expects that the market for passenger aircraft will continue to be cyclical and downturns in broad economic trends may have a negative effect on its future results of operations and financial condition.

Dependence on Defense Spending

In 1999, a significant portion of EADS' pro forma combined revenues was derived from defense spending. In any single market, defense spending depends on a complex mix of geopolitical considerations, budgetary constraints and the ability of the armed forces to meet specific threats and perform certain missions. Defense spending may be subject to significant fluctuations from year to year. As a result, adverse economic and political conditions or downturns in broad economic trends in EADS' defense markets may have a negative effect on EADS' future results of operations and financial condition.

Competition and Market Access

Most of EADS' businesses are subject to significant competition, in particular the commercial aircraft market, where, in the past, Airbus has been affected by downward price pressure resulting from such competition. EADS believes that the underlying cause of such price competition has been mitigated by the ongoing restructuring in the industry. Subsequent to Boeing and Airbus announcing in 1998 increases in their catalog prices of 5% and 3%, respectively, EADS has witnessed a tightening of aircraft unitary prices for new aircraft contracts. No assurance can be given that the price competition of recent years will not resume.

In addition, the contracts for many aerospace and defense products are awarded, implicitly or explicitly, on the basis of home country preference. The EADS combination will provide a broader domestic market constituency but EADS may be at a competitive disadvantage in certain countries, especially outside of Europe, in relation to local contractors for certain products. The strategic importance and political sensitivity attached to the aerospace and defense industries means that political considerations will persist for many products for the foreseeable future.

Export Controls and Other Regulations

The export market is a significant market for EADS. In addition, many of the products EADS designs and manufactures for military use are considered to be of national strategic interest. Consequently the export of such products outside of EADS' domestic markets may be restricted or subject to licensing and export controls, notably by the United Kingdom, France, Germany and Spain, where EADS carries out its principal military activities. There can be no assurance that the export controls to which EADS is subject will not become more restrictive, that new generations of EADS products will not also be subject to similar or more stringent controls or that geopolitical factors will not make it impossible to obtain export licenses for one or more clients. Reduced access to military export markets may have a material adverse effect on EADS' financial position and results of operations.

EADS is also subject to a variety of other governmental regulations which may adversely affect its business and financial condition, including among others, regulations relating to the protection of the environment, the use of its products, labor practices and dealings with foreign officials. In addition, EADS' ability to market new products and enter new markets may be dependent on obtaining government certifications and approvals in a timely manner.

Exposure to Emerging Markets

EADS sells a significant portion of its products in a number of emerging markets and has operations in certain emerging markets. The principal emerging markets that affect EADS' results of operation are in Asia and the Middle East. While such markets have historically experienced high growth overall, such growth has been highly erratic and often negative over given periods. As compared to EADS' U.S. and European markets, emerging

markets are more likely to suffer from economic risks such as inflation, currency devaluation and restrictions on currency movements, which may affect the value in Euro of EADS' assets, liabilities and earnings in these markets. Other risks inherent in these markets include potential difficulties in the importation of raw materials and uncertainty stemming from local tax and employment laws.

Exposure to Foreign Currencies

The majority of EADS' pro forma combined revenues are earned in U.S. dollars and a significant portion of EADS' costs and expenses are denominated in Euro, which creates an exchange rate exposure. EADS has, therefore, implemented an exchange rate strategy in order to manage and minimize such exposure. In order to match the dollar receivables and other exposures, arising mainly from Airbus Industrie, EADS manages a long-term hedging portfolio with a maturity of three and a half years that is composed mostly of forwards and synthetic forwards. EADS' policy is to cover only firm identified net exposures. No assurances may be given that EADS' exchange rate hedging strategy will protect it fully from significant changes in the rate of the dollar to the Euro and that such changes will not affect its results of operations and financial condition.

EADS' pro forma combined revenues, costs, assets and liabilities denominated in currencies other than the Euro are translated into the Euro for the purposes of compiling its financial statements. In the past, changes in the value of the dollar relative to the currency of accounting of the companies making up EADS have affected these companies' financial condition, profitability, results of operations and cash flows, as reported in their financial statements. Further changes may have a material adverse effect on these items for EADS.

Under international accounting standards, hedges which are not designated as hedges of specific assets, liabilities or customer orders, are marked-to-market and any resulting unrealized gains or losses are recognized as financial income or expense. EADS plans to so designate hedges in the future. However, until the results of such policy are fully realized, the effect of mark-to-market accounting treatment on its financial statements could be large fluctuations in its financial income or expense. For example, over the three-year period ended December 31, 1999, EADS experienced, on a pro forma basis, large fluctuations from substantial accounting losses to substantial accounting gains. Given the relative weakness of the Euro against the dollar during the first half of 2000, EADS expects to report substantial financial expense for such period relating to the mark-to-market of its hedges. This accounting treatment will not impact EADS' cash position and cash flows.

Currency exchange rate fluctuations in those currencies other than the U.S. dollar in which EADS incurs its principal manufacturing expenses (mainly the Euro) may have the effect of distorting competition between EADS and competitors whose costs are incurred in other currencies. This is particularly true with respect to fluctuations relative to the U.S. dollar, as many of EADS' products and those of its competitors are priced in U.S. dollars. EADS' ability to compete with competitors may be eroded to the extent that any of EADS' principal currencies appreciates in value against the principal currencies of such competitors.

Availability of State Financing

In prior years, EADS and its principal competitors have benefited from state financing of product development. Although since the early 1990s, the amount of state spending in EADS' markets has declined, EADS has witnessed recently some positive responses from certain governments in relation to the financing of new products. No assurances can be given that such financing will continue to be made available. In 1992, the European Union and the United States entered into an agreement that limits the amount of financial support that governments may provide to civil aircraft manufacturers.

Technologically Advanced Products and Services

Most of the products developed and manufactured by EADS are technologically advanced and sometimes novel systems that must function under demanding operating conditions. Even though EADS believes it employs sophisticated design, manufacturing and testing practices, there can be no assurance that EADS' products will be successfully developed or operated or that they will be developed or will perform as intended. Certain of EADS' contracts require it to forfeit part of its expected profit, to receive reduced payments, to provide a replacement launch or other product or service, or to reduce the price of subsequent sales to the same customer, if any, if its products fail to perform adequately. Performance penalties also may be imposed should EADS fail to meet delivery schedules or other measures of contract performance. EADS, like other organizations, has experienced occasional product failures and other problems, including with respect to certain of its launch vehicles and satellites and there can be no assurances that such problems will not occur in the future. In addition to any costs resulting from product warranties, contract performance or required remedial action, such failures may result in increased costs or loss of revenues and may also have a significant adverse effect on the competitive reputation of EADS' products.

Product Liability and Warranty Claims

EADS designs, develops and produces a number of high profile products of large individual value, particularly civil and military aircraft and space equipment. EADS is subject to the risk of product liability and warranty claims in the event that any of its products fail to perform as designed. While EADS believes that its insurance programs are adequate to protect it from such liabilities and that no material claims have been made against it, no assurances can be given that claims will not arise in the future or that such insurance cover will be adequate.

Increasing Industry Consolidation

The aircraft, defense and space industries are highly concentrated with a small number of large international competitors dominating these markets. These industries are currently experiencing substantial consolidation through mergers, joint ventures and alliances including the EADS combination. Industry consolidation reflects in part increasing competitive pressures and the contraction of certain markets. EADS expects this trend to continue in the near future, and intends to examine carefully any opportunity to participate in such mergers, joint ventures and alliances. EADS' ongoing strategy in this regard and the number and quality of the opportunities available to EADS will be influenced by the pace at which the aircraft, space and defense industries are reorganized.

Dependence on Consortia, Joint Ventures and Equity Holdings

EADS generates a substantial proportion of its revenues through various consortia, joint ventures and equity holdings and believes that its alliances and partnerships are a source of competitive advantage. These arrangements include primarily: (1) three principal consortia: the Airbus Industrie consortium (a French law *Groupement d'Intérêt Économique* or GIE) in which EADS holds an aggregate interest of 80%; the ATR GIE, in which EADS has a 50% interest, and the Eurofighter consortium in which EADS has a 46% interest; (2) two principal joint ventures: Astrium in which EADS holds an aggregate 66% interest and Matra BAE Dynamics ("MBD") in which EADS holds a 50% interest; (3) majority interests: (a) Dornier GmbH: DADC Luft- und Raumfahrt Beteiligungs AG ("DADC"), which is 75% held by EADS, has a 57.55% interest in Dornier GmbH; (b) a newly incorporated telecommunications company, EDSN, in which EADS holds a 55% interest; and (c) LFK-Lenkflugkörpersysteme GmbH ("LFK") in which EADS has a 74.2% interest; and (4) minority interests: Dassault Aviation in which EADS holds a 45.76% interest; Matra Nortel Communications ("MNC") in which EADS has a 45% interest; Nortel Dasa in which EADS in conjunction with Dornier has a 42% interest; and Embraer in which EADS has a 5.7% interest. The formation of partnerships and alliances with other market players is an integral strategy of EADS and the proportion of sales generated from consortia, joint ventures and equity holdings may rise in future years. This strategy may from time to time lead to changes in the organizational structure or realignment in the control of EADS' existing joint ventures.

EADS exercises varying and evolving degrees of control in the consortia, joint ventures and equity holdings in which it participates. While EADS seeks to participate only in ventures in which its interests are aligned with those of its partners, the risk of disagreement or deadlock is inherent in a jointly controlled entity, particularly in those entities that require the unanimous consent of all members with regard to major decisions and specify limited exit rights. The other parties in these entities may also be competitors of EADS, and thus may have interests which differ from those of EADS.

In addition, in those holdings in which EADS is a minority partner or shareholder (notably Dassault Aviation and Embraer), EADS' access to the entity's books and records, and as a consequence, EADS' knowledge of the entity's operations and results, is generally limited as compared to entities in which EADS is a majority holder or is involved in the day-to-day management.

Integration and Rationalization Process

The EADS combination will require EADS to integrate and rationalize substantial and complex businesses. There can be no assurance that EADS will not encounter difficulties in integrating the operations of Aerospatiale Matra, Dasa and CASA or that EADS will be able to improve its margins and reduce its costs. The integration and rationalization of Aerospatiale Matra, Dasa and CASA will involve inherent uncertainties such as the effect of a new organization and the availability of management to oversee the operations and manage the human resources of the combined businesses as well as to develop and capitalize on potential synergies between these businesses. The integration and rationalization process will present many challenges such as the development of EADS-wide internal controls, the renewal of collective bargaining agreements upon their expiration, the harmonizing of retirement plans and employee benefits and the mixing of corporate and national cultures. Any material delays or unexpected costs incurred in connection with such integration and rationalization could have a material adverse effect upon EADS' financial condition and results of operations.

Control of EADS — Controlling Shareholding

After the Transactions, 60% of the share capital of EADS will be held equally by DaimlerChrysler and SOGEADE, who will jointly control EADS, through a Dutch Contractual Partnership. Under the terms of an agreement, no major decision may be taken without the cooperation of both of these shareholders. In addition, the French State has been granted the right to block certain strategic decisions regarding the transfer of or the creation of a security interest over the assets related to the prime contractor status, design, development, or integration of ballistic missiles or EADS' majority interest in Cilas, Sodern, Nuclétudes and GIE Cosyde. In addition, SEPI has been granted the right to block any decisions relating to any major change to the CASA Industrial Plan (as defined in the CASA Business Combination Agreement) and/or its implementation (the "CASA Matters") during a three-year period following Completion. The goal of these and other similar provisions contained in the agreements governing the relationship between the principal shareholders is to establish a stable group of shareholders controlling EADS for a period of at least three years following Completion.

Certain Shareholders' Obligation to Sell Shares

In addition to shares of EADS directly or indirectly held through the Dutch Contractual Partnership, the French State, Lagardère and the French Financial Institutions will directly own EADS shares if the underwriters do not purchase all of these shares by exercising their over-allotment option in full. Lagardère has agreed to purchase such EADS shares from the French Financial Institutions at the end of the exercise period of the over-allotment option. Each of the French State and Lagardère has further agreed that it will sell any shares that it would hold as a result of an incomplete exercise of the over-allotment option (including, in the case of Lagardère, those shares purchased from the French Financial Institutions) within the 18 months period following the global offering. For further details, see "Principal and Selling Shareholders." Consequently these shares could be sold in the capital markets after the end of the six-month lock-up period during which these shareholders are restricted by the underwriting agreement from selling EADS shares. See "Underwriting."

Research and Development

The business environment in many of EADS' principal operating business segments is characterized by extensive research and development costs requiring significant upfront investment. Business plans underlying such investment contemplate a long payback period before this investment is recouped. There can be no assurances that the market assumptions and consequently the payback period contemplated by such business plans will be met.

Environmental Regulations and Liabilities

Together with other companies in the principal industries in which it operates, EADS is subject to numerous European Union, national, regional and local environmental laws and regulations concerning emissions into the environment, discharges to surface and subsurface water and the disposal and treatment of waste materials. EADS undertakes considerable efforts to comply with these laws and regulations, and incurs capital and operating expenditures in connection therewith. EADS believes that its current operations are in substantial compliance with all applicable environmental regulations. Furthermore, EADS believes that it is currently capable of meeting the expected elevation of environmental standards imposed by current laws or regulations, including increasingly stringent environmental product quality standards which will be implemented over the next few years, without incurring significant capital expenditure. However, there can be no assurance that increased capital expenditures and operating costs resulting from future environmental regulations will not adversely affect EADS results of operations and financial condition.

Forward-Looking Statements

Certain of the statements contained in this offering memorandum are not historical facts but rather are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Such forward-looking statements include, without limitation, certain statements made in the sections hereof entitled "Summary of the Offering Memorandum," "Investment Considerations," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business Description" and "Recent Developments and Outlook." Forward looking statements are subject to uncertainty due to, among other factors:

- General economic and labor conditions, including in particular economic conditions in Europe and North America,

- Consolidation among competitors in the aerospace industry,
- The costs of developing, and the commercial success of, new products,
- Ability to successfully integrate the activities of Aerospatiale Matra, Dasa and CASA and to control costs and maintain quality,
- Exchange rate and interest rate spread fluctuations between the Euro and the U.S. dollar and other currencies.

The Company cautions that these statements are further qualified by the “Investment Considerations” disclosed herein that could cause actual results to differ materially from those in the forward looking statements. The Company undertakes no obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

USE OF PROCEEDS

The Selling Shareholders will receive the proceeds of the Shares they sell in the global offering.

EADS intends to use its net proceeds from the global offering to strengthen its capital structure, which in turn will enable it to use planned cash flow to pursue projects supporting its strategic objectives. See “Business Description.” For instance, EADS expects this strengthened capital structure will allow it to respond swiftly as global acquisition and alliance opportunities arise in the consolidating aerospace and defense industries. A stronger financial position would also enable EADS to timely adapt its development and investment programs, notably in new aircraft, as well as its manufacturing operations as market conditions dictate, especially in the commercial aviation segment.

Pending the use of the net proceeds as described above and elsewhere in this offering memorandum, the Company will invest such funds in money market, short-term interest-bearing deposits or instruments.

DIVIDEND POLICY

The Company's dividend policy will be established by its Board of Directors and future payments of dividends, if any, are expected to depend in particular on EADS' results and its investment policy, as well as the dividend policies of European and international companies in the same sector. No assurance may be given that dividends will be declared. See also "Description of Shares."

EXCHANGE RATE INFORMATION

Under the provisions of the Treaty on European Union negotiated at Maastricht in 1991 and signed by the then 12 member states of the European Union in early 1992, a European Monetary Union (known as the “EMU”) was implemented on January 1, 1999 and a single European currency, known as the “Euro”, was introduced. The following 11 member states participate in the EMU and have adopted the Euro as their national currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain. Effective with the implementation of the Euro on January 1, 1999 the legal rate of conversion between French franc and Euro was fixed at FF. 6.55957 = Euro 1.00, between German mark and Euro at DM 1.95583 = Euro 1.00 and between Spanish peseta and Euro at ptas. 166.386 = Euro 1.00. Translation of French franc, German mark and Spanish peseta amounts for periods prior to January 1, 1999 have been made at these legal rates of conversion. On January 4, 1999, the first business day of trading in Euro and U.S. dollars, the noon buying rate in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York (known as the “Noon Buying Rate”) was Euro 1.00 = U.S.\$1.1812.

Since January 1, 1999, the Euro has been the lawful currency of the EMU states, although Euro banknotes and coins are not expected to enter circulation until January 1, 2002. New public debt will be issued in Euro. Outstanding obligations denominated in national currencies will be converted at the legal rates established on January 1, 1999 (unless specific contracts provide for an alternative conversion rate). During a transitional phase, which is planned to begin on January 1, 2002 and end by July 1, 2002, national currencies, including banknotes and coins, will subsist as non-decimal denominations of the Euro. There can be no assurance that these events will take place on time or otherwise as currently expected.

For a discussion of the impact of exchange rate movements on EADS’ financial condition and results of operations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Exchange Rate Management Policy” and “— Revenue and Cost Recognition.”

The following table sets forth, for the periods indicated, certain information concerning the exchange rate between the U.S. dollar and the Euro, calculated using the Noon Buying Rates:

<u>Quarter Ended</u>	<u>Average</u>	<u>Period End</u>
March 31, 1999	1.1204	1.0808
June 30, 1999	1.0567	1.0310
September 30, 1999	1.0493	1.0643
December 31, 1999	1.0368	1.0070
March 31, 20009859	.9574
June 30, 20009334	.9545

CAPITALIZATION

The following table sets forth the pro forma capitalization of EADS as at December 31, 1999 and as adjusted to reflect the sale of EADS shares by the Company in the global offering, assuming full exercise of the underwriters' over-allotment option, the issuance of 12,222,385 shares in the employee offering and no exercise of the employee stock options granted for the purchase of 5,214,884 shares.

	As at December 31, 1999 ⁽¹⁾			
	Pro forma	As adjusted	Pro forma ⁽²⁾	As adjusted
	(In millions of Euro)		(In millions of U.S. dollars)	
Stockholders' equity	8,123	9,704	8,180	9,772
Minority interests	159	159	160	160
Financial liabilities	<u>5,696</u>	<u>5,696</u>	<u>5,736</u>	<u>5,736</u>
Total capitalization	<u><u>13,978</u></u>	<u><u>15,559</u></u>	<u><u>14,076</u></u>	<u><u>15,668</u></u>

(1) Prepared on the basis of the Unaudited Pro Forma Combining Financial Information.

(2) Solely for the convenience of the reader, the translation of Euro into U.S. dollars has been made at Euro 1.00 = U.S.\$1.0070, the Noon Buying Rate on December 31, 1999.

DILUTION

The pro forma net tangible book value of EADS, as at December 31, 1999, was approximately Euro 413 million, or Euro 0.58 per Share, assuming that the number of Shares outstanding was 715,053,828, the number of Shares outstanding at Completion. The pro forma net tangible book value per share is equal to EADS' pro forma total tangible assets (defined as its pro forma combined total assets less pro forma combined intangible assets) less its pro forma total liabilities and minority interests, divided by the number of pro forma outstanding Shares. After giving effect to the sale of the 94,556,965 Shares offered by EADS in the global offering, assuming:

- the exercise in full of the underwriters' over-allotment option,
- the issuance of 12,222,385 Shares in the employee offering, and
- no exercise of the employee stock options granted for the purchase of 5,214,884 Shares,

the pro forma net tangible book value of EADS at December 31, 1999 would have been approximately Euro 1,994 million, or Euro 2.46 per Share. This represents an immediate increase in such pro forma net tangible book value of Euro 1.88 per Share to existing stockholders and, assuming a weighted average price in the global offering of Euro 18.23 per Share, an immediate net weighted average dilution of Euro 15.77 per Share to investors purchasing Shares in the global offering. The following table illustrates this per share dilution based on the assumptions set forth above:

	Euro	Euro
Assumed weighted average price per Share.....		18.23
Pro forma net tangible book value per Share	0.58	
Increase per share attributable to investors purchasing Shares in the retail and employee offering (the "newly-issued Shares")	1.88	
Pro forma net tangible book value per Share after this offering.....		2.46
Weighted average dilution per share to investors purchasing Shares in the global offering...		15.77

EADS' total Stockholders' equity, on a pro forma basis as at December 31, 1999, was approximately Euro 8,123 million. The following table presents the number of shares purchased by the existing stockholders and the purchasers of shares in the global offering, as well as the difference between (i) the total Stockholders' equity, on a pro forma basis as at December 31, 1999, divided by the number of Shares outstanding at Completion and (ii) the weighted average price paid by investors in the global offering:

	Shares Purchased		Average Consideration Per Share
	Number	Percent	(in Euro)
Existing stockholders (less shares sold in the global offering)	643,082,380	79.43%	11.36
Purchasers of shares in the global offering	166,528,413	20.57%	18.23
Total	809,610,793	100.00%	

The table below sets forth the Company's Stockholders' equity on a pro forma basis as at December 31, 1999, as adjusted to reflect the purchase of Shares in the global offering:

	Stockholders' Equity	
	Amount (Euro millions)	Percent
Existing stockholders.....	8,123	83.71%
Purchasers of newly-issued Shares.....	1,581	16.29%
Total	9,704	100.00%

PRO FORMA COMBINING FINANCIAL INFORMATION

The following unaudited pro forma combining statements of income, balance sheets and statement of cash flows of EADS (collectively, the “Unaudited Pro Forma Combining Financial Information”) have been prepared to illustrate the pro forma effects of the transactions combining Aerospatiale Matra, Dasa and CASA to form EADS. The unaudited pro forma combining statements of income give effect to the transactions as if they had occurred on January 1, 1997. The unaudited pro forma combining balance sheets give effect to the transactions as if they had occurred on December 31, 1999. The unaudited pro forma combining statement of cash flows gives effect to the transactions as if they had occurred on January 1, 1999.

EADS has prepared the Unaudited Pro Forma Combining Financial Information, and intends to present its future consolidated financial statements, in accordance with International Accounting Standards (“IAS”), except that all development costs will be expensed as incurred. IAS require that development costs be capitalized as an intangible asset in the period in which they are incurred if certain criteria for asset recognition are met. As a result, future audit opinions on EADS’ financial statements will contain a qualification for this departure from IAS.

The Unaudited Pro Forma Combining Financial Information has been derived from the following financial information included in this document:

- the audited combined financial statements of Dasa⁽¹⁾ and the audited financial statements of CASA for 1997, 1998 and 1999, as well as the audited consolidated financial statements of Aerospatiale Matra for 1999 (the “Audited Financial Statements”);
- the unaudited pro forma combined financial information of Aerospatiale Matra for 1997 and 1998 (the “Unaudited Aerospatiale Matra Pro Forma Financial Information”); and
- the reconciliations of these Audited Financial Statements and the Unaudited Aerospatiale Matra Pro Forma Financial Information to IAS as adopted by EADS (the “IAS Reconciliations”).

The audited combined financial statements of Dasa do not reflect the results of operations attributable to, or the value of assets and liabilities, which are not to be contributed to EADS, in particular the aero engine manufacturing and maintenance activities of MTU München GmbH and its subsidiaries (“MTU”) and certain other activities.

For a variety of reasons, including those stated below, the Unaudited Pro Forma Combining Financial Information is not comparable with the Audited Financial Statements or the Unaudited Aerospatiale Matra Pro Forma Financial Information.

The Unaudited Aerospatiale Matra Pro Forma Financial Information illustrates the pro forma effects of the 1999 transactions combining Aerospatiale, Matra Hautes Technologies (“MHT”) and Dassault Aviation. It is based on the audited financial statements of Aerospatiale and MHT for 1997 and 1998, which are included in this document, and the audited financial statements of Dassault Aviation for 1997 and 1998. The Unaudited Aerospatiale Matra Pro Forma Financial Information, as well as the Unaudited Pro Forma Combining Financial Information, account for Dassault Aviation using the equity method, the basis on which EADS intends to present Dassault Aviation in its future consolidated financial statements. In contrast, the Audited Financial Statements of Aerospatiale Matra for 1999 account for Dassault Aviation using the proportionate method of consolidation. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Accounting Considerations — Consolidation Methods.”

The IAS Reconciliations are based on the Audited Financial Statements, the Unaudited Aerospatiale Matra Pro Forma Financial Information and the assumptions set forth in the notes to the IAS Reconciliations. The IAS Reconciliations have had a substantial effect on certain of the items derived from the Audited Financial Statements and the Unaudited Aerospatiale Matra Pro Forma Financial Information. The most significant effect is with respect to the accounting treatment of foreign exchange financial instruments, particularly for Aerospatiale Matra. Other significant effects concern the treatment of residual value guarantees, refundable governmental advances, the amortization of goodwill and the consolidation of subsidiary entities.

IAS differ in certain material respects from the generally accepted accounting principles (“GAAP”) used in the preparation of the Audited Financial Statements and the Unaudited Aerospatiale Matra Pro Forma Financial Information. A general description of the differences between IAS and French GAAP affecting the Audited Financial Statements of Aerospatiale Matra and the Unaudited Aerospatiale Matra Pro Forma Financial Information

(1) In this offering memorandum, all references to financial statements, balance sheets, statements of income and statements of cash flows of Dasa refer to the audited combined financial statements of Dasa included in this document. Dasa is defined for this purpose in Note 1 of such audited combined financial statements.

is presented at “Unaudited Reconciliation from Pro Forma and Historical French GAAP to IAS — Aerospatiale Matra.” A general description of the differences between IAS and U.S. GAAP affecting the Audited Financial Statements of Dasa is presented at “Unaudited Reconciliation from Historical U.S. GAAP to IAS — Dasa.” A general description of the differences between IAS and Spanish GAAP affecting the Audited Financial Statements of CASA is presented at “Unaudited Reconciliation from Historical Spanish GAAP to IAS — CASA.”

The Unaudited Pro Forma Combining Financial Information does not give effect to certain restructuring and rationalization expected to occur following Completion. In addition, although EADS anticipates that cost reductions will result from Completion, no effect has been given in the Unaudited Pro Forma Combining Financial Information to any such benefits. Any such potential cost reductions will be a function of numerous factors, and no assurance can be given that any such cost reduction will be realized over time.

The transactions creating EADS will be treated as a business combination using the purchase method of accounting. The balance sheets of Dasa and CASA have been revalued to fair value, while the balance sheet of Aerospatiale Matra has been stated at historical cost. Accordingly, for the purpose of the Unaudited Pro Forma Combining Financial Information, the purchase prices of Dasa and CASA have been allocated on a preliminary basis to certain tangible assets, principally inventories and property, plant and equipment, based on their relative fair values. The fair value adjustments for property, plant and equipment have been depreciated over their estimated composite lives in the unaudited pro forma combining statements of income. The excess of the purchase prices of Dasa and CASA over the estimated fair values of their respective assets and liabilities is reflected in the unaudited pro forma combining balance sheets as goodwill under “Intangible assets” and has been amortized over a composite life of 20 years in the unaudited pro forma combining statements of income.

The preliminary purchase price allocations were derived using internal documentation regarding the fair values of assets acquired and liabilities assumed. After Completion, Management intends to obtain independent third party valuation studies to value the existing assets and liabilities of Dasa and CASA and to allocate the excess purchase prices over the costs of these acquired businesses. Management expects that amortization charges for tangible assets, estimated from the weighted average of their operating lives, as well as goodwill recorded in the unaudited pro forma combining statements of income, will not be significantly affected once the valuation studies have been completed and existing assets and liabilities have been recorded at their fair values.

The Unaudited Pro Forma Combining Financial Information reflects adjustments for tax effects resulting from the revaluation of Dasa and CASA assets and liabilities (for example, reduction of tax expense to account for increased amortization relating to property, plant and equipment recorded at fair value). Except in this regard, no effect has been given in the Unaudited Pro Forma Combining Financial Information to any potential differences between the sum of the individual tax positions of Aerospatiale Matra, Dasa and CASA, and the future tax position resulting from the structure of EADS and its subsidiaries. The extent of any future tax savings or tax costs resulting from the creation of EADS cannot be predicted with certainty as of the date hereof.

The pro forma adjustments to the Unaudited Pro Forma Combining Financial Information include adjustments relating (1) to differing accounting methodologies used by Aerospatiale Matra, Dasa and CASA to account for their respective ownership interests in partially owned subsidiaries, joint ventures and GIE, some of these being separate interests in the same entity that are combined in EADS; (2) to the distribution of cash amounts by Dasa and CASA to their shareholders prior to Completion; and (3) to the creation of EADS, in particular with respect to the revaluation of Dasa and CASA assets and liabilities to fair value and the recognition of goodwill. In addition, the eliminations made in the preparation of the Unaudited Pro Forma Combining Financial Information relate primarily to transactions between Aerospatiale Matra, Dasa and CASA.

The Unaudited Pro Forma Combining Financial Information does not reflect the proceeds that may be raised in the global offering. Likewise, the amounts included under financial income in the unaudited combining pro forma statements of income have not been adjusted to take into account the cash distribution by Dasa and CASA to their shareholders prior to the Completion.

The Unaudited Pro Forma Combining Financial Information is provided for illustrative purposes only and does not purport to represent what the financial position, results of operations or cash flows of EADS would actually have been if the transactions creating EADS had occurred as of the dates indicated or to project the combined financial position, results of operations or cash flows for any future date or period. The Unaudited Pro Forma Combining Financial Information should be read in conjunction with the notes thereto, the Audited Financial Statements, the separate audited financial statements of Aerospatiale and MHT, the Unaudited Aerospatiale Matra Pro Forma Financial Information and IAS Reconciliations, and related notes thereto, contained elsewhere in this document.

**Unaudited Pro Forma Combining Statements of Income for the Years Ended
December 31, 1997, 1998 and 1999**

	Year ended December 31,		
	1997	1998	1999
	(in millions of Euro)		
Revenues.....	18,865	20,584	22,553
Cost of sales.....	(15,270)	(16,489)	(18,278)
Gross margin	<u>3,595</u>	<u>4,095</u>	<u>4,275</u>
Selling, administrative and other expenses.....	(2,377)	(2,378)	(2,213)
Research and development expenses.....	(1,090)	(1,232)	(1,324)
Other income ⁽¹⁾	458	710	475
Goodwill depreciation.....	(403)	(410)	(398)
Income before financial income and income taxes	183	785	815
Financial income (expense), net.....	(1,747)	1,005	(1,846)
Income (loss) before income taxes	(1,564)	1,790	(1,031)
Income taxes.....	596	(585)	24
Minority interests.....	(15)	(16)	(2)
Net income (loss)	<u>(983)</u>	<u>1,189</u>	<u>(1,009)</u>

(1) Other income represents principally gains on sales of investments and fixed assets, rental income, income from reversals of provisions and, in 1997, certain currency gains.

Unaudited Pro Forma Combining Balance Sheets as at December 31, 1998 and 1999

	As at December 31,	
	1998	1999
	(in millions of Euro)	
Assets		
Intangible assets.....	7,854	7,710
Property, plant and equipment, net.....	7,452	7,950
Investments and long-term financial assets.....	3,109	3,931
Fixed assets	<u>18,415</u>	<u>19,591</u>
Inventories.....	1,501	1,045
Trade receivables.....	4,069	4,509
Other receivables.....	3,055	3,360
Securities.....	722	1,575
Cash and cash equivalents.....	4,132	3,175
Non-fixed assets ⁽²⁾	<u>13,479</u>	<u>13,664</u>
Deferred taxes	1,614	1,734
Prepaid expenses	474	651
Total assets	<u>33,982</u>	<u>35,640</u>
Liabilities and stockholders' equity		
Stockholders' equity	9,763	8,123
Minority interests	104	159
Accrued liabilities	5,963	7,421
Financial liabilities.....	4,511	5,696
Trade liabilities.....	3,896	3,734
Other liabilities.....	6,054	6,416
Liabilities	<u>14,461</u>	<u>15,846</u>
Deferred taxes	1,633	1,345
Deferred income	2,058	2,746
Total liabilities	<u>24,219</u>	<u>27,517</u>
Total liabilities and stockholders' equity	<u>33,982</u>	<u>35,640</u>

(2) Including amounts to be realized in excess of one year.

Unaudited Pro Forma Combining Statement of Income
For the Year Ended December 31, 1999
(in millions of Euro)

	Aerospatiale Matra	Dasa	CASA	Pro Forma Adjustments	Eliminations	Pro Forma EADS
Revenues	12,236	7,455	931	5,768	(3,837)	22,553
Cost of sales	<u>(9,624)</u>	<u>(5,914)</u>	<u>(735)</u>	<u>(5,820)</u>	<u>3,815</u>	<u>(18,278)</u>
Gross margin	<u>2,612</u>	<u>1,541</u>	<u>196</u>	<u>(52)</u>	<u>(22)</u>	<u>4,275</u>
Selling, administrative and other expenses ...	(1,358)	(662)	(97)	(106)	10	(2,213)
Research and development expenses	(689)	(563)	(22)	(50)	0	(1,324)
Other income	312	150	37	(14)	(10)	475
Goodwill depreciation	<u>(127)</u>	<u>(5)</u>	<u>0</u>	<u>(266)</u>	<u>0</u>	<u>(398)</u>
Income before financial income and income taxes	750	461	114	(488)	(22)	815
Financial income (expense), net	<u>(1,724)</u>	<u>(89)</u>	<u>(25)</u>	<u>(72)</u>	<u>64</u>	<u>(1,846)</u>
Income (loss) before income taxes	(974)	372	89	(560)	42	(1,031)
Income taxes	352	(405)	(15)	79	13	24
Minority interests	<u>(22)</u>	<u>(6)</u>	<u>0</u>	<u>26</u>	<u>0</u>	<u>(2)</u>
Net income (loss)	<u><u>(644)</u></u>	<u><u>(39)</u></u>	<u><u>74</u></u>	<u><u>(455)</u></u>	<u><u>55</u></u>	<u><u>(1,009)</u></u>

Unaudited Pro Forma Combining Statement of Income
For the Year Ended December 31, 1998
(in millions of Euro)

	Aerospatiale Matra	Dasa	CASA	Pro Forma Adjustments	Eliminations	Pro Forma EADS
Revenues	11,472	7,115	800	4,466	(3,269)	20,584
Cost of sales	<u>(8,977)</u>	<u>(5,495)</u>	<u>(626)</u>	<u>(4,647)</u>	<u>3,256</u>	<u>(16,489)</u>
Gross margin	<u>2,495</u>	<u>1,620</u>	<u>174</u>	<u>(181)</u>	<u>(13)</u>	<u>4,095</u>
Selling, administrative and other expenses ...	(1,351)	(833)	(121)	(74)	1	(2,378)
Research and development expenses	(655)	(507)	(18)	(52)	0	(1,232)
Other income	472	200	32	7	(1)	710
Goodwill depreciation	<u>(128)</u>	<u>(16)</u>	<u>0</u>	<u>(266)</u>	<u>0</u>	<u>(410)</u>
Income before financial income and income taxes	833	464	67	(566)	(13)	785
Financial income (expense), net	<u>620</u>	<u>223</u>	<u>(6)</u>	<u>64</u>	<u>104</u>	<u>1,005</u>
Income (loss) before income taxes	1,453	687	61	(502)	91	1,790
Income taxes	(427)	(240)	4	70	8	(585)
Minority interests	<u>(16)</u>	<u>(23)</u>	<u>0</u>	<u>23</u>	<u>0</u>	<u>(16)</u>
Net income (loss)	<u><u>1,010</u></u>	<u><u>424</u></u>	<u><u>65</u></u>	<u><u>(409)</u></u>	<u><u>99</u></u>	<u><u>1,189</u></u>

Unaudited Pro Forma Combining Statement of Income
For the Year Ended December 31, 1997
(in millions of Euro)

	<u>Aerospatiale Matra</u>	<u>Dasa</u>	<u>CASA</u>	<u>Pro Forma Adjustments</u>	<u>Eliminations</u>	<u>Pro Forma EADS</u>
Revenues	11,131	6,303	744	3,448	(2,761)	18,865
Cost of sales	<u>(8,724)</u>	<u>(5,233)</u>	<u>(556)</u>	<u>(3,519)</u>	<u>2,762</u>	<u>(15,270)</u>
Gross margin	<u>2,407</u>	<u>1,070</u>	<u>188</u>	<u>(71)</u>	<u>1</u>	<u>3,595</u>
Selling, administrative and other expenses ...	(1,216)	(998)	(112)	(57)	6	(2,377)
Research and development expenses	(644)	(409)	(16)	(21)	0	(1,090)
Other income	104	355	22	(17)	(6)	458
Goodwill depreciation	<u>(127)</u>	<u>(10)</u>	<u>0</u>	<u>(266)</u>	<u>0</u>	<u>(403)</u>
Income before financial income and income taxes	524	8	82	(432)	1	183
Financial income (expense), net	<u>(1,323)</u>	<u>(321)</u>	<u>(16)</u>	<u>(27)</u>	<u>(60)</u>	<u>(1,747)</u>
Income (loss) before income taxes	(799)	(313)	66	(459)	(59)	(1,564)
Income taxes	320	208	(13)	81	0	596
Minority interests	<u>(10)</u>	<u>(10)</u>	<u>0</u>	<u>5</u>	<u>0</u>	<u>(15)</u>
Net income (loss)	<u><u>(489)</u></u>	<u><u>(115)</u></u>	<u><u>53</u></u>	<u><u>(373)</u></u>	<u><u>(59)</u></u>	<u><u>(983)</u></u>

Unaudited Pro Forma Combining Balance Sheet
as at December 31, 1999
(in millions of Euro)

	Aerospatiale Matra	Dasa	CASA	Pro Forma Adjustments	Eliminations	Pro Forma EADS
Assets						
Intangible assets	2,312	71	4	5,323	0	7,710
Property, plant and equipment, net	3,505	1,171	159	3,300	(185)	7,950
Investments and long-term financial assets	<u>2,401</u>	<u>334</u>	<u>29</u>	<u>1,167</u>	<u>0</u>	<u>3,931</u>
Fixed assets	<u>8,218</u>	<u>1,576</u>	<u>192</u>	<u>9,790</u>	<u>(185)</u>	<u>19,591</u>
Inventories	150	533	129	294	(61)	1,045
Trade receivables	2,915	1,314	263	292	(275)	4,509
Other receivables	1,268	1,529	31	1,482	(950)	3,360
Securities	1,574	55	0	(54)	0	1,575
Cash and cash equivalents	<u>759</u>	<u>3,958</u>	<u>570</u>	<u>(2,112)</u>	<u>0</u>	<u>3,175</u>
Non-fixed assets	<u>6,666</u>	<u>7,389</u>	<u>993</u>	<u>(98)</u>	<u>(1,286)</u>	<u>13,664</u>
Deferred taxes	675	749	82	81	147	1,734
Prepaid expenses	<u>635</u>	<u>23</u>	<u>1</u>	<u>(8)</u>	<u>0</u>	<u>651</u>
Total assets	<u>16,194</u>	<u>9,737</u>	<u>1,268</u>	<u>9,765</u>	<u>(1,324)</u>	<u>35,640</u>
Liabilities and stockholders' equity						
Stockholders' equity	<u>1,778</u>	<u>2,397</u>	<u>507</u>	<u>3,580</u>	<u>(139)</u>	<u>8,123</u>
Minority interests	171	191	0	(203)	0	159
Accrued liabilities	2,413	4,446	63	446	53	7,421
Financial liabilities	3,681	217	110	1,723	(35)	5,696
Trade liabilities	2,317	840	480	323	(226)	3,734
Other liabilities	<u>3,890</u>	<u>1,409</u>	<u>101</u>	<u>2,036</u>	<u>(1,020)</u>	<u>6,416</u>
Liabilities	<u>9,888</u>	<u>2,466</u>	<u>691</u>	<u>4,082</u>	<u>(1,281)</u>	<u>15,846</u>
Deferred taxes	2	224	5	1,071	43	1,345
Deferred income	<u>1,942</u>	<u>13</u>	<u>2</u>	<u>789</u>	<u>0</u>	<u>2,746</u>
Total liabilities	<u>14,416</u>	<u>7,340</u>	<u>761</u>	<u>6,185</u>	<u>(1,185)</u>	<u>27,517</u>
Total liabilities and stockholders' equity ..	<u>16,194</u>	<u>9,737</u>	<u>1,268</u>	<u>9,765</u>	<u>(1,324)</u>	<u>35,640</u>

Unaudited Pro Forma Combining Balance Sheet
as at December 31, 1998
(in millions of Euro)

	Aerospatiale Matra	Dasa	CASA	Pro Forma Adjustments	Eliminations	Pro Forma EADS
Assets						
Intangible assets	2,447	69	14	5,324	0	7,854
Property, plant and equipment, net.....	3,209	1,150	132	3,125	(164)	7,452
Investments and long-term financial assets..	<u>2,141</u>	<u>231</u>	<u>28</u>	<u>709</u>	<u>0</u>	<u>3,109</u>
Fixed assets	<u>7,797</u>	<u>1,450</u>	<u>174</u>	<u>9,158</u>	<u>(164)</u>	<u>18,415</u>
Inventories	660	423	187	348	(117)	1,501
Trade receivables	2,842	1,138	167	200	(278)	4,069
Other receivables	1,144	1,644	14	669	(416)	3,055
Securities.....	722	21	0	(21)	0	722
Cash and cash equivalents	<u>770</u>	<u>5,065</u>	<u>384</u>	<u>(2,087)</u>	<u>0</u>	<u>4,132</u>
Non-fixed assets	<u>6,138</u>	<u>8,291</u>	<u>752</u>	<u>(891)</u>	<u>(811)</u>	<u>13,479</u>
Deferred taxes	280	1,060	69	71	134	1,614
Prepaid expenses	<u>455</u>	<u>27</u>	<u>1</u>	<u>(9)</u>	<u>0</u>	<u>474</u>
Total assets	<u>14,670</u>	<u>10,828</u>	<u>996</u>	<u>8,329</u>	<u>(841)</u>	<u>33,982</u>
Liabilities and stockholders' equity						
Stockholders' equity	<u>2,613</u>	<u>3,203</u>	<u>449</u>	<u>3,624</u>	<u>(126)</u>	<u>9,763</u>
Minority interests	160	119	0	(175)	0	104
Accrued liabilities	1,403	4,118	54	347	41	5,963
Financial liabilities	3,179	254	114	993	(29)	4,511
Trade liabilities.....	2,472	856	336	487	(255)	3,896
Other liabilities	<u>3,389</u>	<u>1,735</u>	<u>36</u>	<u>1,380</u>	<u>(486)</u>	<u>6,054</u>
Liabilities	<u>9,040</u>	<u>2,845</u>	<u>486</u>	<u>2,860</u>	<u>(770)</u>	<u>14,461</u>
Deferred taxes	12	531	5	1,071	14	1,633
Deferred income	<u>1,442</u>	<u>12</u>	<u>2</u>	<u>602</u>	<u>0</u>	<u>2,058</u>
Total liabilities	<u>12,057</u>	<u>7,625</u>	<u>547</u>	<u>4,705</u>	<u>(715)</u>	<u>24,219</u>
Total liabilities and stockholders' equity	<u>14,670</u>	<u>10,828</u>	<u>996</u>	<u>8,329</u>	<u>(841)</u>	<u>33,982</u>

Unaudited Pro Forma Combining Statement of Cash Flows
For the Year Ended December 31, 1999
(in millions of Euro)

	Aerospatiale Matra	Dasa	CASA	Pro Forma Adjustments	Eliminations	Pro Forma EADS
Net income (loss)	(644)	(39)	74	(455)	55	(1,009)
Income applicable to minority interests	22	6	0	(26)	0	2
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation and amortization of fixed assets	523	255	33	415	0	1,226
Deferred taxes	(423)	489	(13)	(81)	16	(12)
Change in financial instruments	0	5	24	0	0	29
Results on disposals of fixed assets/ businesses	(267)	(33)	10	0	0	(290)
Change in accrued liabilities.....	316	373	9	99	12	809
Change in other operating assets and liabilities	<u>1,344</u>	<u>(513)</u>	<u>157</u>	<u>(175)</u>	<u>(30)</u>	<u>783</u>
Cash provided by operating activities	<u>871</u>	<u>543</u>	<u>294</u>	<u>(223)</u>	<u>53</u>	<u>1,538</u>
Purchase of fixed assets						
— Purchases of property, plant and equipment.....	(643)	(283)	(66)	(175)	21	(1,146)
— Purchases of other fixed assets	(449)	(72)	(1)	(458)	0	(980)
Proceeds from disposals of fixed assets	651	41	6	1	0	699
Payments for acquisitions of businesses.....	0	(71)	(2)	0	0	(73)
Proceeds from disposals of businesses.....	126	19	1	0	0	146
Net disposals of securities and similar financial instruments	0	86	0	34	0	120
Increase in loans receivable.....	0	(102)	0	0	0	(102)
Change in cash from changes in consolidation.....	<u>0</u>	<u>(4)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(4)</u>
Cash used for investing activities	<u>(315)</u>	<u>(386)</u>	<u>(62)</u>	<u>(598)</u>	<u>21</u>	<u>(1,340)</u>
Change in financial liabilities	329	(37)	(4)	730	(6)	1,012
Dividends paid (including profit/loss transfer agreement).....	0	(1,288)	(17)	70	(70)	(1,305)
Capital increase.....	0	69	0	0	0	69
Other	<u>(17)</u>	<u>(8)</u>	<u>(25)</u>	<u>(3)</u>	<u>2</u>	<u>(51)</u>
Cash used for financing activities	<u>312</u>	<u>(1,264)</u>	<u>(46)</u>	<u>797</u>	<u>(74)</u>	<u>(275)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(27)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(27)</u>
Net increase (decrease) in cash and cash equivalents	<u>841</u>	<u>(1,107)</u>	<u>186</u>	<u>(24)</u>	<u>0</u>	<u>(104)</u>
Cash and cash equivalents						
At beginning of period	<u>1,492</u>	<u>5,065</u>	<u>384</u>	<u>(2,087)</u>	<u>0</u>	<u>4,854</u>
At end of period	<u>2,333</u>	<u>3,958</u>	<u>570</u>	<u>(2,111)</u>	<u>0</u>	<u>4,750</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following discussion is based on the Unaudited Pro Forma Combining Financial Information, together with the related notes thereto, and should be read in conjunction with the following information in this document:

- the audited combined financial statements of Dasa and the audited financial statements of CASA for 1997, 1998 and 1999, as well as the audited consolidated financial statements of Aerospatiale Matra for 1999 (the "Audited Financial Statements");
- the unaudited pro forma combined financial information of Aerospatiale Matra for 1997 and 1998 (the "Unaudited Aerospatiale Matra Pro Forma Financial Information"); and
- the reconciliations of these Audited Financial Statements and the Unaudited Aerospatiale Matra Pro Forma Financial Information to IAS as adopted by EADS (the "IAS Reconciliations").

Financial Information

The Audited Financial Statements and the Unaudited Aerospatiale Matra Pro Forma Financial Information

Aerospatiale Matra. The (1) audited consolidated financial statements of Aerospatiale Matra for the year ended December 31, 1999, (2) audited consolidated financial statements of each of Aerospatiale and MHT for the years ended December 31, 1997 and 1998 and (3) Unaudited Aerospatiale Matra Pro Forma Financial Information, consisting of the pro forma statements of income of Aerospatiale Matra for the years ended December 31, 1997 and 1998 and the pro forma balance sheet of Aerospatiale Matra as at December 31, 1998, have been prepared in accordance with French GAAP.

The Unaudited Aerospatiale Matra Pro Forma Financial Information illustrates the pro forma effects of the 1999 transactions combining Aerospatiale, MHT and Dassault Aviation. It is based on the audited financial statements of Aerospatiale and MHT for 1997 and 1998 (included in this offering memorandum), and the audited financial statements of Dassault Aviation for 1997 and 1998 (not included in this offering memorandum). The Unaudited Aerospatiale Matra Pro Forma Financial Information (as well as the Unaudited Pro Forma Combining Financial Information) accounts for Dassault Aviation using the equity method, the basis on which EADS intends to present Dassault Aviation in its future consolidated financial statements. In contrast, the Audited Financial Statements of Aerospatiale Matra for 1999 account for Dassault Aviation using the proportionate method of consolidation. See "— Accounting Considerations — Consolidation Methods."

Dasa. The audited combined financial statements of Dasa for the years ended December 31, 1997, 1998 and 1999 have been prepared in accordance with U.S. GAAP, except with respect to the use of the proportionate method of consolidation for certain joint ventures. U.S. GAAP requires that such joint ventures be accounted for using the equity method. These financial statements (as well as the Unaudited Pro Forma Combining Financial Information) exclude the aero engine manufacturing and maintenance operations of MTU and certain other activities, which are not to be contributed to EADS.

CASA. The audited financial statements of CASA for the years ended December 31, 1997, 1998 and 1999 have been prepared in accordance with Spanish GAAP.

The IAS Reconciliations

It is the current intention of EADS to present its future consolidated financial statements in accordance with IAS, except that all development costs will be expensed as incurred. IAS requires that development costs be capitalized as an intangible asset if certain criteria for asset recognition are met. As a result, future audit opinions on EADS' financial statements will contain a qualification for this departure from IAS.

For a discussion of the reconciliations of French, U.S. and Spanish GAAP to IAS, see "— Unaudited Reconciliation from Pro Forma and Historical French GAAP to IAS — Aerospatiale Matra", "— Unaudited Reconciliation from Historical U.S. GAAP to IAS — Dasa" and "— Unaudited Reconciliation from Historical Spanish GAAP to IAS — CASA", respectively.

The IAS Reconciliations are based on the Audited Financial Statements and the Unaudited Aerospatiale Matra Pro Forma Financial Information and the assumptions set forth in the notes to the IAS Reconciliations. The IAS Reconciliations have had a substantial effect on certain of the items derived from the Audited Financial Statements

and the Unaudited Aerospatiale Matra Pro Forma Financial Information. The most significant effect is with respect to the accounting treatment of foreign exchange financial instruments, particularly for Aerospatiale Matra. Other significant effects concern the treatment of residual value guarantees, refundable governmental advances, the amortization of goodwill and the consolidation of subsidiary entities.

The Unaudited Pro Forma Combining Financial Information

The Unaudited Pro Forma Combining Financial Information is derived from the Audited Financial Statements, the Unaudited Aerospatiale Matra Pro Forma Financial Information and the IAS Reconciliations. Consistent with the IAS Reconciliations, the Unaudited Pro Forma Combining Financial Information has been prepared in accordance with IAS, except with respect to the capitalization of development costs.

The Unaudited Pro Forma Combining Financial Information has been prepared to illustrate the pro forma effects of the transactions combining Aerospatiale Matra, Dasa and CASA to form EADS. To present the pro forma combining financial condition of EADS, the unaudited pro forma combining balance sheets reflect the transactions as if they had occurred at December 31, 1999. On the other hand, to present the pro forma combining financial performance of EADS, the unaudited pro forma combining statements of income give effect to the transactions as if they had occurred on January 1, 1997. By doing so, such unaudited pro forma combining statements of income reflect a pro forma yearly charge for revaluation of fixed assets' depreciation and goodwill amortization that does not affect the pro forma stockholders' equity at December 31, 1998 and 1999. The unaudited pro forma combining statement of cash flows gives effect to the transactions as if they had occurred on January 1, 1999.

The figures presented for EADS in the Unaudited Pro Forma Combining Financial Information are the arithmetic sum of the corresponding items from the IAS Reconciliations for each of Aerospatiale Matra, Dasa and CASA, subject to certain pro forma adjustments and eliminations. The pro forma adjustments are of three principal kinds: (i) those relating to differing accounting methodologies used by Aerospatiale Matra, Dasa and CASA to account for their respective ownership interests in subsidiaries and controlling interests, joint ventures and consortia, some of these being separate interests in the same entity that are combined in EADS, (ii) those relating to the distribution of cash amounts by Dasa and CASA to their shareholders prior to the creation of EADS and (iii) those relating to the creation of EADS, principally in respect of the accounting and amortization of goodwill and the revaluation of Dasa and CASA assets and liabilities to fair value. The eliminations made in the preparation of the Unaudited Pro Forma Combining Financial Information relate primarily to transactions between Aerospatiale Matra, Dasa and CASA.

Combining the financial results of the companies on a consistent basis and reconciling the results to IAS (other than with respect to the capitalization of development costs) means that the Unaudited Pro Forma Combining Financial Information differs in certain material respects from the historical financial statements of the combining companies. There are, therefore, a number of uncertainties inherent to the presentation, and the discussion below is provided for illustrative purposes only. The Unaudited Pro Forma Combining Financial Information does not purport to represent what the financial condition, results of operations or cash flows of EADS would actually have been if the transactions creating EADS had occurred as of the dates indicated or to project the combined financial condition, results of operations or cash flows for any future date or for any future period.

Accounting Considerations

Set forth below is a discussion of certain facts and policies pertaining to the financial information included herein.

Consolidation Methods

EADS fully consolidates those entities over which it exercises long-term control and whose revenues and total assets are material in comparison with the corresponding amounts in EADS' consolidated financial statements. Companies and consortia over which EADS shares joint control with other entities (for example the Airbus Industrie GIE consortium) are accounted for by the proportionate method of consolidation. Companies over which EADS exercises substantial influence, but not majority or joint control, and whose net assets are material in comparison with EADS' consolidated net assets, are accounted for using the equity method. Financing companies (other than Airbus Finance Company) that were historically accounted for using the equity method, taking into account their shareholding structure, voting rights and the nature of the entities' business activities, are consolidated using the proportionate method in the Unaudited Pro Forma Combining Financial Information.

The Unaudited Pro Forma Combining Financial Information reflects certain changes in consolidation methods as compared with those of the Audited Financial Statements and the Unaudited Aerospatiale Matra Pro Forma Financial Information. The differences in accounting for subsidiaries, joint ventures and GIE arise because (i) a

change in ownership of one of these entities occurred during the three year period ended December 31, 1999, (ii) the combination of the respective interests of Aerospatiale Matra, Dasa and CASA in these entities results in different consolidation treatment of them or (iii) the adoption of IAS results in a change of consolidation treatment or requires that different consolidation approaches be made consistent.

Certain of the principal changes in consolidation methods are described below:

- **Airbus Industrie.** The Airbus Industrie consortium, which groups together the Airbus businesses of Aerospatiale Matra (owning a 37.9% interest in Airbus Industrie), Dasa (37.9%), BAE SYSTEMS (20.0%) and CASA (4.2%), is accounted for using the proportionate method. Prior to Completion, Aerospatiale Matra used the proportionate method of accounting while Dasa and CASA used the equity method of accounting for their interests in Airbus Industrie.
- **Airbus Finance Company.** EADS will own 80% of Airbus Finance Company which has been fully consolidated in the Unaudited Pro Forma Combining Financial Information. Airbus Finance Company is a financing vehicle for Airbus aircraft in service with customers. Prior to Completion, Aerospatiale Matra and Dasa used the equity method of accounting while CASA used the cost method.
- **Eurocopter.** Eurocopter, which is 70% held, directly and indirectly, by Aerospatiale Matra and 30% held by Dasa, is fully consolidated. Prior to Completion, Aerospatiale Matra fully consolidated Eurocopter. Dasa on the other hand, proportionately consolidated 40% of Eurocopter's holding company, which in turn held 75% of Eurocopter's operating companies.
- **Matra Marconi Space.** During the two-year period ended December 31, 1998, Matra Marconi Space (or "MMS") was 51% owned by MHT and 49% owned by MES. During that period, MES was a subsidiary of the General Electric Company plc ("GEC") of the United Kingdom and is now part of BAE SYSTEMS. Upon GEC's exercise of an option to purchase 1% of MMS from MHT after the combination of MHT and Aerospatiale, MMS became a 50/50 joint venture and, as a result, MMS is accounted for using the proportionate method in the Unaudited Pro Forma Combining Financial Information.
- **Dassault Aviation.** In December 1998, the French State transferred to Aerospatiale a 45.76% participation in Dassault Aviation. Dassault Aviation has been accounted for using the equity method of accounting in the Unaudited Pro Forma Combining Financial Information. Prior to Completion, Aerospatiale Matra used the proportionate method to account for Dassault Aviation.
- **Euromissile.** EADS will own 100% of Euromissile, which has been fully consolidated in the Unaudited Pro Forma Combining Financial Information. Prior to Completion, Aerospatiale Matra used the proportionate method to account for its 50% interest, while Dasa used the cost method to account for its 50% interest.

Changes In Consolidated Entities

Aerospatiale Matra and Dasa have acquired and sold interests in various businesses during the three-year period ended December 31, 1999. Gains from such sales are reflected in "Other income" in the unaudited pro forma combining statements of income. The results of operations attributable to interests sold or acquired by Aerospatiale Matra and Dasa are not reflected in the results of operations of EADS for a full financial year except in the case of those sales that were deemed effective on January 1. Sales and acquisitions of interests in various businesses account, in part, for differences in EADS' results of operations for one year as compared to those for another year.

Interests sold or acquired by Aerospatiale Matra and Dasa include the following:

- **Satellite Activities.** In June 1998, in connection with the French State's decision to form a consolidated defense electronics entity centered around Thomson-CSF, Aerospatiale transferred its satellite activities to Thomson-CSF in return for Thomson-CSF stock amounting to 4% of the capital of Thomson-CSF. The divestiture was deemed effective January 1, 1998 and generated a pre-tax gain on the sale of Euro 102 million. The satellite activities generated pro forma revenues of Euro 488 million in 1997. In addition, in 1998 Aerospatiale transferred to the French group Alcatel its interests in the following satellite joint ventures: Loral Space and Communications, Eurosatellite, Intespace, Eurasiasat, and Telas. The transfer of these interests generated total pre-tax gains of Euro 64 million. Aerospatiale Matra has retained satellite operations through MMS.
- **ATEV.** Effective June 30, 1998, Aerospatiale increased its interest in ATEV, the parent company of Sextant Avionique, from 33.3% to 50%. However, Aerospatiale agreed to transfer its entire interest in

ATEV to Thomson-CSF, and completed this transfer in early 1999. As a result, ATEV's contribution to Aerospatiale Matra's pro forma results of operations was accounted for under the equity method for 1998. The pre-tax gain resulting from the sale of this interest in 1999 amounted to Euro 182 million.

- **LFK.** MBD, 50% held by Aerospatiale Matra, acquired a 30% interest in LFK-Lenkflugkörpersysteme GmbH ("LFK"), a missile subsidiary of the Dasa group. After this acquisition, Dasa AG held 59.2% of LFK and continued to fully consolidate LFK. Aerospatiale Matra accounted for the results of LFK under the equity method beginning on April 1, 1998. The gains from the sale of the interest in LFK by the Dasa group to Aerospatiale Matra were eliminated in the Unaudited Pro Forma Combining Financial Information. MBD is a joint venture with BAE SYSTEMS, and EADS' interest in this joint venture is part of EADS' Defense and Civil Systems division.
- **Telecommunications.** Through MNC, Aerospatiale Matra acquired Nortel's distribution network in France, which has been included in the pro forma results of Aerospatiale Matra since January 1, 1998, and which contributed Euro 73 million in pro forma revenues for 1998. In the first half of 1998, MNC sold its 50% interest in MET, a public network switching company, to the Ericsson group. For accounting purposes, the sale was effective as of January 1, 1998. In 1997, MET was fully consolidated by MNC and in 1997 MET contributed Euro 158 million to pro forma revenues. In June 1998, within the context of the termination of its GSM end-user equipment operations, MNC transferred its GSM mobile telephone research and development operations to the Nokia group.
- **AVSCO.** At year-end 1997, Aerospatiale sold to AAR Corporation, one of its U.S. subsidiaries, AVSCO, an aircraft spare parts distribution company that contributed pro forma revenues of Euro 77 million in 1997.
- **CMS.** In 1998, Dasa AG sold 100% of its interests in CMS Inc. to Primex Technologies Inc., resulting in a pre-tax gain of Euro 58 million.
- **Defense Electronics Acquisition from Siemens.** In 1998, Dasa AG acquired the German defense electronics activities of Siemens AG (SI Sicherungstechnik GmbH & Co. KG).

None of the sales or acquisitions described above constitutes a "business disposition" according to IAS.

Goodwill

For accounting purposes, the combination of Aerospatiale Matra, Dasa and CASA was treated as a business combination using the purchase method of accounting. As a result, the balance sheets of Dasa and CASA were revalued to reflect fair market value of acquired assets and assumed liabilities, while the balance sheet of Aerospatiale Matra was included in the EADS pro forma combining balance sheet at historical cost. The fair value adjustments for property, plant and equipment have been depreciated over their estimated composite lives (a charge of approximately Euro 149 million per year included in "Cost of sales") in the unaudited pro forma combining statements of income. The excess of the purchase prices of Dasa and CASA over the estimated fair market values of their respective assets and liabilities is reflected in the pro forma combining balance sheet as "Intangible assets" and has been amortized over an estimated composite life of 20 years (a charge of approximately Euro 266 million per year) in the unaudited pro forma combining statements of income.

The contribution of MHT to Aerospatiale by Lagardère resulted in the exchange of shares of MHT for shares of Aerospatiale Matra. The transaction under French GAAP has been accounted for at book value of MHT, whereas this transaction under IAS is based on the fair value of the MHT assets and liabilities. Principally for this reason, the reconciliation to IAS of Aerospatiale Matra's Audited Financial Statements for 1999 and the Unaudited Aerospatiale Matra Pro Forma Financial Information resulted in an increase of Euro 106 million in yearly goodwill amortization relating to this transaction.

EADS will periodically re-evaluate the recoverability of its goodwill on the basis of future expected cash flows.

Contracts

EADS and its subsidiaries enter into a large number of contracts the duration, pricing, payment arrangements, liability clauses, governing laws and other terms of which vary substantially from contract to contract. This diversity reflects the differing practices of the various governments and other customers with which EADS does business, as well as the numerous product markets in which EADS competes. For instance, satellite contracts typically tie part of the manufacturer's compensation to the performance of the satellite during its operating life.

In accordance with applicable laws in EADS' principal markets, most contracts with governmental entities may only be awarded through a public bidding process conducted under local laws and regulations. Such contracts are based on either a fixed-price basis or cost-plus basis. Revenues under cost-plus contracts are subject to a review of the allowable costs. Most contracts with private sector customers are also awarded through bidding processes.

A significant portion of EADS' contracts contain price escalation clauses which allow EADS to increase the price of the contract under certain circumstances, such as increases in its underlying costs. EADS' contracts generally contain clauses requiring the payment of liquidated damages if products are not delivered or projects are not completed within a predefined timetable. In addition, most contracts also contain warranty clauses specifying a period following delivery or completion during which EADS is required to remedy any defects or problems that may arise.

Revenue and Cost Recognition

Revenues are recognized upon the transfer of risk or the rendering of a service. In most cases of commercial aircraft sales, revenues are recorded, and profit or loss is recognized, upon delivery of each aircraft to the customer. See “— Residual and Asset Value Guarantees” for a discussion of certain aircraft sales that constitute operating leases for accounting purposes. With respect to long-term projects, revenues are recognized according to the percentage-of-completion method as contractually agreed milestones are reached or the work progresses. Changes in profit margins 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.

EADS uses a variety of financial instruments for hedging purposes, including currency forwards and options. Hedges which are not designated as hedges of specific assets, liabilities, or customer orders (“macro hedging”) are marked-to-market and any resulting unrealized gains or losses are recognized in “Financial income (expense)”. If there is a direct and designated connection between a financial instrument and an underlying customer order of equipment (“micro hedging”), a valuation unit is formed. Once allocated, gains and losses from these valuation units, which are used to manage currency risks of identifiable assets, liabilities, or firm commitments, do not affect revenues until the underlying equipment sale is realized.

Each of Aerospatiale Matra, Dasa and CASA have sought to hedge their dollar revenue streams from their aircraft and other sales with financial instruments. Aerospatiale Matra, unlike Dasa and CASA, typically have not tied individual hedges to specific sales. In these circumstances, IAS provides that revenues from sales of equipment in any given year are recorded at the average dollar-Euro exchange rate for that year. In addition, it requires that outstanding financial instruments be marked-to-market on the basis of the dollar-Euro exchange rate at the end of the relevant financial period. The effect of this IAS accounting treatment on the EADS Unaudited Pro Forma Combining Financial Information is reflected in the large fluctuations from substantial accounting losses to substantial accounting gains that are recorded in “Financial income (expense)” over the three-year period ended December 31, 1999. These accounting gains and losses are not reflected in the audited consolidated financial statements of Aerospatiale Matra and Aerospatiale, because these financial statements were prepared under French GAAP.

In contrast, Dasa has, since 1997, generally applied a micro hedging approach pursuant to which IAS requires that its dollar-denominated sales be recorded in “Revenues” on the basis of the dollar-Euro exchange rate at which these sales were hedged. Dasa's financial instruments that are unconnected to a valuation unit have been marked-to-market.

Finally, revenues received in dollars by CASA have been recognized as such on the basis of the dollar/Euro exchange rate at which the sales were hedged.

Beginning in 2001, EADS will be required to adopt a new accounting standard, IAS 39, on the accounting for derivative financial instruments. This standard requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains and losses resulting from changes in the values of those derivatives would be accounted for depending on the purpose of the derivative and whether it qualifies for hedge accounting.

Residual and Asset Value Guarantees

Under certain contracts with their customers, the Airbus Industrie and ATR GIE agree to either repurchase aircraft during a specific period or on certain dates at a contractually specified price, or bear any losses if the aircraft is resold on the second-hand market below the contractually specified price. The risk for the GIE corresponds to the difference between (1) the estimated market value of the aircraft during the period or on the dates when the customers may exercise the option to require the GIE to repurchase or resell the aircraft and (2) the guaranteed

value of the aircraft. Under IAS, aircraft sales subject to residual and asset value guarantees are accounted for as operating leases, if the risk to EADS is considered material. Under French GAAP, aircraft sales subject to residual and asset value guarantees are accounted for as sales.

Research and Development Expenses

EADS recognizes research and development costs as an expense in the year incurred. When research and development expenses are partly financed internally and partly by the customer, the externally-financed portion is recognized as “Revenues” using the percentage-of-completion method. Only EADS’ internally financed research and development costs are reflected as “Research and development” expenses in the statement of income. The costs related to externally financed research and development are reflected in the statement of income under “Cost of sales.”

The accounting treatment for research and development costs adopted by EADS does not conform with IAS, which it will otherwise follow in the preparation of its financial statements. IAS requires that development costs be capitalized as an intangible asset in the period in which incurred if certain criteria for asset recognition are met.

Refundable Governmental Advances

Aerospatiale Matra, Dasa and CASA have received from the French State, the Federal Republic of Germany and the Kingdom of Spain, respectively, aircraft development financing in the form of reimbursable advances known as “refundable governmental advances.” Under a 1992 agreement between the European Union and the United States, these refundable governmental advances are limited to 33% of the total development cost of a new aircraft model. The refundable government advances are repaid from the proceeds of future sales of aircraft. The amount refunded from each sale is determined in advance and established in the development agreements between Aerospatiale Matra, Dasa and CASA and their respective national governments.

All outstanding refundable governmental advances have been presented under “Other liabilities” in the unaudited pro forma combining balance sheets. Under IAS, the principal amounts of repayments of refundable governmental advances are deducted from “Other liabilities”. Interest charges related to the amount of refundable governmental advances will be expensed in the year in which they are incurred.

Pursuant to the contract with the French State with respect to a particular aircraft model, Aerospatiale Matra’s obligations to repay refundable governmental advances for that aircraft model equals a fixed amount per aircraft sold, multiplied by a specified number of units of that aircraft model. Accordingly, Aerospatiale Matra’s refundable governmental advances are fully reimbursed after a certain number of sales. After Aerospatiale Matra has sold all of the specified number of units of an aircraft model and fully repaid the total amount of the refundable governmental advances for such model, it is required to pay a relatively minor royalty amount in respect of each additional aircraft sold.

The accounting for refundable governmental advances in the Aerospatiale Matra Audited Financial Statements and Unaudited Aerospatiale Matra Pro Forma Financial Information is different from that in the Unaudited Pro Forma Combining Financial Information. See “— Unaudited Reconciliation from Pro Forma and Historical French GAAP to IAS — Aerospatiale Matra.” In cases where Aerospatiale Matra received refundable governmental advances, it historically recognized the development costs for a new aircraft model as an expense in the year they were incurred and recorded the related refundable government advances paid by the French State as “Other income” in the same year. Until Aerospatiale Matra had sold all of the specified number of units of an aircraft model, it accounted for the entire sale price of such units as “Sales” and the repayable amount of the refundable governmental advances as “Purchases and changes in inventory.” In the Unaudited Aerospatiale Matra Pro Forma Financial Information the entire sale price of aircraft units is accounted for as “Revenues” and repayments of refundable governmental advances as “Research and development expenses.”

With respect to the refundable governmental advances received by Dasa, such obligations to the Federal Republic of Germany were settled by repayments of Euro 895 million in 1998 and Euro 716 million in 1997. The 1998 settlement, which resulted in the complete discharge of all remaining obligations to the German Federal government, related to the Airbus A300/310 and A330/340 series aircraft. The 1997 settlement related to the A320 aircraft and its derivatives. Of the foregoing settlement payments, Euro 229 million were expensed in 1998 and Euro 369 million in 1997. The remainder of the settlement payments were capitalized and are being amortized over those aircraft to be delivered in the future to which the settlements relate.

CASA historically has recognized the development costs for a new aircraft model as an expense in the year they were incurred. With respect to a given financial period, CASA has allocated to revenues the share of refundable governmental advances received for a new aircraft model in proportion to the progress of the expensed develop-

ment costs in relation to the total projected development costs for such new aircraft model. The non-reimbursed part of the refundable governmental advances has been presented in the balance sheet, net of the corresponding development costs.

Orders

In most cases, notably orders placed with Airbus Industrie, EADS records orders when a contract has been signed, a significant deposit has been received and EADS is reasonably satisfied that financing for the order will be available. In the case of governmental orders, EADS may record orders when the agreement is signed. "Orders booked" represents the total amount in Euro of orders booked during the year and "Order backlog" represents the net amount in Euro of orders remaining on EADS' order book at year-end. The following tables show orders booked and backlog by division. Interdivision orders have been excluded from these tables. The orders booked for Airbus are based on catalog prices.

Orders Booked (Pro Forma)⁽¹⁾

<u>Division</u>	<u>Year Ended December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(in billions of Euro)		
Airbus ⁽²⁾	20.5	25.4	20.7
Military Transport Aircraft.....	0.0	0.2	0.6
Aeronautics	4.5	5.9	4.9
Space	3.3	2.9	2.2
Defense & Civil Systems.....	4.5	5.2	4.3
TOTAL	32.8	39.6	32.7

Order Backlog (Pro Forma)⁽¹⁾

<u>Division</u>	<u>As at December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(in billions of Euro)		
Airbus ⁽²⁾	49.3	63.4	79.5
Military Transport Aircraft.....	0.4	0.3	0.7
Aeronautics	5.4	7.7	8.8
Space	6.6	4.8	4.4
Defense & Civil Systems.....	6.9	8.4	9.0
TOTAL	68.6	84.6	102.4

(1) Without options.

(2) Based on catalog prices.

The pro forma order backlog at the end of 1999 was equivalent to approximately four years of pro forma revenues at 1999 levels.

Exchange Rate Management Policy

EADS' revenues are primarily denominated in dollars, while a substantial portion of its costs are incurred in Euro. Consequently, to the extent that EADS does not use financial instruments to fix its exchange rate exposure from the time of a customer order of equipment to the time of its delivery, its profits will be affected by changes in the dollar-Euro exchange rate. Since EADS intends to generate profits principally from its operations, rather than through speculation on exchange rate movements, EADS uses hedging strategies to manage and minimize the impact of exchange rate fluctuations on these profits. EADS' current foreign exchange hedge position is the result of the combination of the outstanding hedging activity of Aerospatiale Matra, Dasa and CASA.

EADS currently manages a long-term hedging portfolio with a maturity of three and a half years covering dollar receivables, mainly from the activities of Airbus Industrie. EADS only hedges actual net dollar exposure with respect to firm orders, primarily using currency forwards and option contracts for coverage. The main currency option strategy employed is a synthetic forward, which comprises a combination of the purchase of a dollar put and the sale of a dollar call, each with the same notional amount and maturity.

As of December 31, 1999, EADS' dollar translation exposure was fixed, as follows: (1) for the year 2000, 98% of the dollar flow is fixed at a rate of 1.184 dollars per Euro; (2) for the year 2001, 91% is fixed at a rate of 1.157 dollars per Euro; (3) for the year 2002, 92% is fixed at a rate of 1.163 dollars per Euro; and (4) for the year 2003, approximately 11% is fixed at a rate of 1.08 dollars per Euro. Approximately one-half of the currency exposure for the year 2002 is fixed through the use of dollar "put spreads", involving the purchase and sale of put options of the same maturity and notional amounts at different strike prices, backed by the sale of dollar calls.

Given that hedges over longer periods are more expensive to implement, EADS plans to employ hedges to cover decreasing percentages of currency exposure over time as follows: 90% for the current year, 70% for the second year, 50% for the third year and 25% for the fourth year. These coverage ratios may be adjusted to take into account macroeconomic movements affecting the spot and interest rates, as applicable.

Aerospatiale Matra's Exchange Rate Management Policy

Historically, the majority of Aerospatiale Matra's sales have been dollar denominated, resulting in a policy of hedging anticipated net dollar exposure (determined by reference to "firm" orders received).

Aerospatiale Matra has primarily used currency forwards and options contracts to effect its hedging requirements. Aerospatiale Matra's currency options hedging strategy has focused on achieving a "zero premium" stance.

The notional outstanding amounts of financial instruments executed by Aerospatiale Matra in respect of its hedging activities, which do not exceed its share of the order book of Airbus Industrie, are set out below.

	<u>At December 31,</u>	
	<u>1998</u>	<u>1999</u>
	(in millions of dollars)	
Currency contracts (including forward contracts and sales of call options)	12,572	13,033

As of December 31, 1998, Aerospatiale Matra had U.S.\$ 1.1 billion outstanding in forward currency contracts, U.S.\$ 4.0 billion in net purchases of dollar put options and U.S.\$ 11.4 billion in net sales of dollar call options. As a result of strategy decisions taken in early 1999, Aerospatiale Matra instituted a new hedging strategy resulting in the sales of dollar cash flows at an equivalent rate of 1.19 dollars per Euro for the year 2000, and approximately between 1.17 and 1.19 dollars per Euro for the year 2001 and 2002. This change of strategy cost Aerospatiale Matra Euro 402 million for the year 1999, which is accounted for in "Financial income (expense)" in the Unaudited Pro Forma Combining Financial Information. Having implemented this strategy, Aerospatiale Matra has assembled a portfolio of currency forwards, synthetic forwards, dollar put spreads backed by dollar call sales, and for the years 2001 and 2002, a surplus of approximately U.S.\$ 1.1 billion in dollar call sales not matched by dollar revenue flows at Aerospatiale Matra. During the same period, however, there are unhedged dollar revenue flows at Dasa and CASA which more than cover the unmatched dollar call sales at Aerospatiale Matra.

Dasa's Exchange Rate Management Policy

Dasa has used financial instruments, such as forward exchange contracts and, to a much lesser extent, currency options to manage its currency exposure resulting from day-to-day business operations.

The outstanding amounts of financial instruments executed by Dasa in respect of its hedging activities are set out below.

	<u>At December 31,</u>	
	<u>1998</u>	<u>1999</u>
	(in millions of Euro)	
Currency contracts (including forward contracts)	4,824	4,814

CASA's Exchange Rate Management Policy

CASA has hedged its anticipated exchange rate exposure from equipment sales and other operating activities through the use of currency forwards and options.

Interest Rate Management Policy

Aerospatiale Matra has managed its interest rate exposure using hedging instruments such as options, interest rate swaps and future rate agreements ("FRA"). Amounts of interest paid and received under swaps have been

accounted for over the period of the liability covered. Premiums paid or received have been recorded on the balance sheet and allocated to the income statement on a proportionate basis over the life of the swap contract.

The table below shows the nominal contract value of Aerospatiale Matra's interest rate instruments at December 31, 1999.

	At December 31, 1999			
	Total ⁽¹⁾	Residual Maturity		
		Under 1 year	1 to 5 years	Over 5 years
		(in millions of Euro)		
Interest Rate Instruments:				
Interest rate swaps				
Fixed rate borrower	191	—	191	—
Fixed rate lender	526	39	487	—
FRA — purchased	—	—	—	—
FRA — sold	—	—	—	—
Caps — purchased	85	49	36	—
Caps — sold	—	—	—	—
Floors — purchased	—	—	—	—
Floors — sold	48	12	36	—

(1) Excluding swap agreements of Airbus financing subsidiaries.

Dasa and CASA historically have not used hedging instruments to manage their interest rate exposure to any material extent.

Off Balance Sheet Liabilities

Certain sales contracts for Airbus and ATR aircraft have imposed financial liabilities on the Airbus Industrie and ATR GIE which may be borne jointly and severally among the consortium partners, specifically allocated to defined third parties (for example, to engine suppliers) or capped in amount.

Such liabilities consist of three principal types: (1) guarantees of lease payments, (2) guarantees of aircraft residual values or reimbursement of outstanding loans, and (3) agreements to participate in financing the purchase of aircraft by customers.

While commitments to provide financial guarantees related to orders on Airbus' and ATR's backlog are also given, such guarantees are not accounted for as off balance sheet liabilities until the guarantee has been issued and the aircraft has been delivered. This is due to (1) the fact that it is unlikely that all such guarantees will be issued, (2) that, until the aircraft has been delivered, Airbus or ATR retain its value and (3) that third parties provide part of the guarantee.

Reserves are established to cover likely future costs, that are probable of occurrence, whether the aircraft financing has been guaranteed by the consortium or one of its subsidiaries.

EADS' net commitments under these financial guarantees are recorded as contingent liabilities and correspond to its share (80% for Airbus and 50% for ATR) of (1) the total amount of the guarantee provided by GIE, less (2) a percentage of the market value of the aircraft concerned (which it determines using independent market value data) and less (3) reserves already recorded.

At December 31, 1999, EADS' net liabilities with respect to delivered aircraft totaled Euro 496 million, compared with Euro 630 million at December 31, 1998 and Euro 889 million at December 31, 1997. The table below describes such liabilities as of December 31, 1999.

	Airbus	ATR	Total
	(in millions of Euro)		
EADS share in financial guarantee	1,961	681	2,642
Portion of market value of aircraft	(1,161)	(599)	(1,760)
EADS liabilities, net	800	82	882
Reserves established	(304)	(82)	(386)
Contingent liabilities (net of reserves)	496	0	496

Overview

EADS is Europe's premier aerospace and defense company and the third largest aerospace and defense company in the world. In terms of market share, EADS is among the top two manufacturers of commercial aircraft, civil helicopters, commercial space launch vehicles and missiles, and a leading supplier of military aircraft, defense satellites and electronics.

EADS is the result of the consolidation of the businesses of Aerospatiale Matra, Dasa and CASA. EADS plans to organize these businesses into five divisions as follows:

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

In general, these manufacturing businesses are characterized by long production cycles and are subject to medium-term and long-term trends in civil aviation, aerospace, defense and telecommunications. Another important characteristic of many of these businesses is the extent of intervention by governmental entities, both in terms of equipment ordered by them and direct and indirect financing from them.

Industry Considerations

Set forth below is a summary of significant trends affecting the main markets in which EADS competes. For further information on the markets in which EADS is present, see "Business Description."

Commercial Aircraft Market

The market for passenger jet aircraft has experienced a prolonged period of sustained, if somewhat cyclical, growth, driven by an 8% average annual increase in worldwide passenger traffic since 1967. Principal factors underlying the growth in passenger traffic, and consequently the demand for passenger jet aircraft, include the deregulation of air transport, reduced airline operating costs and worldwide economic development. Deregulation in the United States, leading to the development of the hub concept, has increased demand for smaller, more fuel-efficient, narrow-body aircraft in particular.

Deregulation and liberalization in other markets, notably in the European Union since the early 1990s, is expected to alter aircraft fleet utilization similarly. The cyclicity of the market for aircraft has historically been influenced by such factors as the global and regional business cycles, fleet age and obsolescence, the cost of fuel or the availability of financing.

The market for passenger jet aircraft is dominated by two manufacturers, Boeing and Airbus. The level of investment required to develop a competitive product range forms a high barrier to entry for potential new competitors. The world air transport system as a whole is also highly concentrated, and is undergoing changes that are likely to further increase the degree of concentration of both suppliers and operators.

The market for regional air travel and the demand for commercial jet aircraft with less than 100 seats have been growing. The regional aircraft industry has experienced concentration in recent years, with EADS and Bombardier dominating the market for turboprop aircraft and Bombardier and Embraer dominating the market for regional jets.

Consistent with the growth in commercial air travel and the size of the Airbus fleet in service, the market for maintenance of Airbus aircraft has been growing, which trend is expected to continue. The market for the conversion of passenger aircraft into freighter aircraft is growing as the air cargo market increases in size and freight service airlines replace aging freighters. These growth trends present opportunities for EADS to increase income from its commercial aircraft conversion and maintenance businesses.

The market for civil helicopters, which is largely supplied by EADS and by Bell Helicopters, has been experiencing a cyclical recovery since 1996. Management believes that global deliveries of civil helicopters will remain relatively stable in the next five years.

European Defense Market

The defense market in Western Europe, where EADS generates the majority of its military sales, has shown a generally decreasing trend in sales throughout the 1990s as a result of the end of the Cold War and general budgetary constraints.

However, despite this trend of decreasing defense budgets in Western Europe, EADS anticipates significant growth in its military helicopter, combat aircraft, ballistic missile, satellites, defense electronics and defense services businesses in Europe. Management expects EADS' military aircraft sales to increase substantially as a result of Western European military demand for EADS' Tiger attack helicopter and NH90 military transport helicopter. Another recently developed product, the Eurofighter combat aircraft, also has the potential to add substantially to EADS' revenues in the Western European military sector. Furthermore, Management anticipates an increase in revenues over the next few years in its ballistic missiles activity resulting from development work on the M51, the new generation of submarine launched ballistic missiles that the French State has decided to introduce.

Recent conflicts, such as Kosovo, have highlighted the European military need for observation satellites and defense electronic equipment interoperability in command, control, communication and intelligence (C3I) systems. Management believes that these segments of the European defense market will grow in the medium-term to long-term.

Management also perceives a trend towards the outsourcing of services by European armed forces, since it is an effective solution to problems arising from a decrease in public budgets and army personnel occurring as a result of the professionalization of the armed services.

Spending in the Western European missile systems market, of which EADS is the leading supplier, has begun to increase following a period of general decline in the early 1990s, as new platforms are equipped, older missile systems are replaced and greater emphasis is placed on air defense systems. European missile systems suppliers, including EADS, have commenced a process of consolidation, both as a result of the general decline in defense spending and in response to the consolidation experienced in the U.S. market through the 1980s and 1990s. These factors have contributed to increased competition between European and U.S. producers in markets in Europe, the Middle East and Asia, as producers seek new export markets to offset decreased spending in their home markets.

Space and Telecommunications Markets

The space industry has experienced significant growth in recent years in both its commercial and military segments. Demand in the commercial segment has been driven by telecommunications operators seeking to satisfy increasing worldwide demand for telecommunications satellites and services. Demand for commercial space launching services has been growing largely in line with demand for satellites.

The market for telecommunications equipment, in which EADS is a major European provider of voice and data networking products, has enjoyed sustained growth driven by increased commercial and military demand for data transmission, the deregulation of national telecommunications services, migration to digital data networking systems and the introduction of internet protocol technologies. The professional mobile radio segment, in which EADS is a global market leader, has additionally benefited from a migration from analog to secure digital systems, and promising opportunities exist in Europe and elsewhere. Supply of telecommunications equipment is relatively concentrated among a small number of manufacturers active worldwide.

Results of Operations

The following discussion is based upon the financial statements of Aerospatiale Matra, Dasa and CASA, which have been restated following IAS, except with respect to the capitalization of development costs, and converted to Euro. The financial information for the individual entities in the following discussion, while based on IAS, does not reflect the pro forma eliminations or adjustments that have been used in arriving at the totals in the Unaudited Pro Forma Combining Financial Information as a whole. Thus for any given income statement item, the arithmetic sum of the respective figures for each of Aerospatiale Matra, Dasa and CASA will not equal the figure for EADS as a whole.

The following table sets forth unaudited pro forma income statement items of EADS for the periods indicated.

**Unaudited Pro Forma Combining Statements of Income
for the Years Ended December 31, 1997, 1998 and 1999**

	Year ended December 31,		
	1997	1998	1999
	(in millions of Euro)		
Revenues.....	18,865	20,584	22,553
Cost of Sales.....	<u>(15,270)</u>	<u>(16,489)</u>	<u>(18,278)</u>
Gross margin.....	<u>3,595</u>	<u>4,095</u>	<u>4,275</u>
Selling, administrative and other expenses.....	(2,377)	(2,378)	(2,213)
Research and development expenses.....	(1,090)	(1,232)	(1,324)
Other income.....	458	710	475
Goodwill depreciation.....	<u>(403)</u>	<u>(410)</u>	<u>(398)</u>
Income before financial income and income taxes.....	183	785	815
Financial income (expense), net.....	<u>(1,747)</u>	<u>1,005</u>	<u>(1,846)</u>
Income (loss) before income taxes.....	(1,564)	1,790	(1,031)
Income taxes.....	596	(585)	24
Minority interests.....	<u>(15)</u>	<u>(16)</u>	<u>(2)</u>
Net income (loss).....	<u><u>(983)</u></u>	<u><u>1,189</u></u>	<u><u>(1,009)</u></u>

Pro Forma Revenues and Operating Income by Division

Set forth below is a breakdown of EADS' revenues by division for the past three years, prepared on a pro forma basis, as well as income before financial income and income taxes, also prepared on a pro forma basis. For purposes of the table below and the discussion of pro forma results of operations for EADS by division, immediately following, "Income before financial income and income taxes" is referred to as "Operating Income" for ease of discussion.

	Year ended December 31,								
	1997			1998			1999		
	Revenues	Percentage of Revenues ⁽¹⁾	Operating Income	Revenues	Percentage of Revenues ⁽¹⁾	Operating Income	Revenues	Percentage of Revenues ⁽¹⁾	Operating Income
	(in millions of Euro)								
Airbus.....	8,595	43.7	335	10,466	48.8	579	12,639	53.8	896
Military Transport									
Aircraft.....	367	1.9	12	322	1.5	9	241	1.0	(21)
Aeronautics.....	3,602	18.3	15	3,833	17.9	181	4,280	18.2	202
Space.....	3,238	16.4	173	2,652	12.3	153	2,518	10.7	99
Defense and Civil									
Systems.....	<u>3,872</u>	<u>19.7</u>	<u>164</u>	<u>4,191</u>	<u>19.5</u>	<u>266</u>	<u>3,830</u>	<u>16.3</u>	<u>86</u>
Subtotal.....	19,674	100.0	699	21,464	100.0	1,188	23,508	100.0	1,262
Eliminations and others ⁽²⁾	<u>(809)</u>		<u>(516)</u>	<u>(880)</u>		<u>(403)</u>	<u>(955)</u>		<u>(447)</u>
EADS.....	<u><u>18,865</u></u>		<u><u>183</u></u>	<u><u>20,584</u></u>		<u><u>785</u></u>	<u><u>22,553</u></u>		<u><u>815</u></u>

(1) Prior to eliminations and others.

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

Airbus

Pro forma revenues of the Airbus Division increased by 21.8% from Euro 8,595 million in 1997 to Euro 10,466 million in 1998, and by 20.8% to 12,639 million from 1998 to 1999, principally as a consequence of substantial increases in aircraft deliveries from year to year. Most of these increases occurred in the relatively lower-priced, single-aisle A319/A320/A321 aircraft family. Airbus Industrie delivered 294 of this type of aircraft in 1999, compared with 229 in 1998 and 182 in 1997. In addition, between 1998 and 1999 there was a substantial increase in deliveries of twin-aisle A330/A340, offset slightly by a decrease in deliveries of twin-aisle A300/A310 aircraft. Revenues from 1998 to 1999 were also positively affected by the strengthening of the dollar against the Euro. For a discussion of the impact of exchange rate variations on EADS' results of operations and EADS'

hedging policy, see “— Accounting Considerations — Revenue and Cost Recognition” and “— Exchange Rate Risk Management Policy.”

Pro forma operating income increased by approximately 73% from Euro 335 million in 1997 to Euro 579 million in 1998, and by approximately 55% to Euro 896 million from 1998 to 1999. These increases were principally a consequence of the growth in aircraft deliveries and a substantial decrease in obligations to repay refundable governmental advances. See “— Accounting Considerations — Refundable Governmental Advances.”

Military Transport Aircraft

Pro forma revenues in the MTA Division decreased by 12.3% from Euro 367 million in 1997 to Euro 322 million in 1998 and by approximately 25% to Euro 241 million in 1999, principally as a consequence of the completion in 1998 of deliveries of CN-235 military transport aircraft to the Turkish military pursuant to a multi-year contract signed in 1991. Deliveries under this contract fell from 9 aircraft in 1997 to 5 in 1998; no aircraft were delivered under this contract in 1999. Revenues were also impacted from 1998 to 1999 by a decrease in the number of C-212 aircraft delivered under an agreement with the Republic of Venezuela, as well as by the completion in 1998 of deliveries of wings as part of the SAAB 2000 aircraft program.

Pro forma operating income decreased by 25.0% from Euro 12 million in 1997 to Euro 9 million in 1998, and showed a loss of Euro 21 million in 1999, principally as a result of the factors discussed above.

Aeronautics

Pro forma revenues in the Aeronautics Division increased by 6.4% from Euro 3,602 million in 1997 to Euro 3,833 million in 1998, primarily due to an increase in revenues from Eurocopter and from the Eurofighter program, which were offset in part by the absence of revenues in 1998 from AVSCO, a spare parts distribution company that was sold in 1997 to AAR Corporation. Pro forma revenues increased by 11.7% from Euro 3,833 million in 1998 to Euro 4,280 million in 1999, principally as a consequence of an increase in revenues from the Tornado upgrade program, as well as from increased revenues of Eurocopter, ATR and the civil aircraft maintenance business.

Pro forma operating income increased from Euro 15 million in 1997 to Euro 181 million in 1998 due to the effect of slightly higher expenses spread over a larger revenue base. Pro forma operating income increased by 11.6% from Euro 181 million in 1998 to Euro 202 million in 1999, principally as a result of an increase in revenues from military aircraft activities.

Space

Pro forma revenues in the Space Division decreased by 18.1% from Euro 3,238 million 1997 to Euro 2,652 million in 1998, primarily due to a decrease in revenues resulting from the spin-off in 1998 of the former Aerospatiale's satellite activities to Alcatel. Also significant was the decrease in the relative importance of revenues from agency-ordered projects in which the work performed by subcontractors is reflected as revenue in EADS' unaudited pro forma combining statement of income. Certain large-scale projects involve extensive sub-contracting work in which Dasa acts as the prime contractor. In recent years, Dasa was awarded a higher proportion of smaller, lower-revenue projects with a higher company-own share. This trend did not result in substantial decreases in Dasa's internal capacity utilization. Aerospatiale Matra was not subject to this trend, and EADS does not believe these recent results are necessarily indicative of future trends. Pro forma revenues decreased by 5.1% from Euro 2,652 million in 1998 to Euro 2,518 million in 1999, principally as a consequence of the continuation of the above mentioned trend for Dasa. Moreover, EADS experienced a decline in the number of telecommunications satellites sold due to difficult market conditions.

Pro forma operating income decreased by 11.6% from Euro 173 million in 1997 to Euro 153 million in 1998, due primarily to restructuring costs associated with EADS' launchers activities. Pro forma operating income decreased by approximately 35% from Euro 153 million in 1998 to Euro 99 million in 1999, in large part as a result of technical problems with certain satellite solar arrays.

Defense and Civil Systems

Pro forma revenues in the Defense and Civil Systems Division increased by 8.2% from Euro 3,872 million in 1997 to Euro 4,191 million in 1998, due primarily to the acquisition of SI Sicherungstechnik, an electronic defense company. Pro forma revenues decreased by 8.6% from Euro 4,191 million in 1998 to Euro 3,830 million in 1999, principally as a consequence of the completion of a major missile export contract in 1998, which was offset in part by a substantial revenue increase from the joint venture with Nortel Networks, Canada.

Pro forma operating income increased by approximately 62% from Euro 164 million in 1997 to Euro 266 million in 1998 due principally to the divestiture of CMS, Inc. Pro forma operating income decreased by approximately 68% from Euro 266 million in 1998 to Euro 86 million in 1999, principally as a result of the completion in 1998 of the major missile export contract referred to above.

Results of Operations: Fiscal Year 1999 Compared with 1998

In the following discussion, references to “IAS revenues”, “IAS cost of sales” and other such references to income statement items refer to the IAS Reconciliations of such income statement items.

Revenues

Total pro forma revenues of EADS increased by 9.6% from Euro 20,584 million in 1998 to Euro 22,553 million in 1999. This increase was primarily attributable to an increase in revenues from deliveries of commercial aircraft. Airbus, 80% of the ownership interest of which is controlled by EADS, experienced a substantial increase in deliveries of commercial aircraft in 1999 compared with 1998, which had a strong positive effect on each of the combining companies' revenues. This increase was offset in part by a substantial decrease in revenues associated with the completion of a major missile export contract and a slight decrease in revenues from space-related activities.

Aerospatiale Matra's IAS revenues amounted to Euro 12,236 million in 1999, an increase of 6.7% over IAS pro forma revenues of Euro 11,472 million in 1998. In addition to increased revenues from Aerospatiale Matra's Airbus division, revenues were positively impacted by increases in revenues of Eurocopter, ATR and the civil aircraft maintenance business. This increase was offset in part by a decrease in revenues associated with the completion in 1998 of a major missile export contract.

Dasa's IAS revenues increased 4.8% from Euro 7,115 million in 1998 to Euro 7,455 million in 1999. In addition to increased revenues from its Airbus division, Dasa saw an increase in revenues from its military aircraft division (particularly in connection with the Tornado conversion program). These increases were offset in part by a marked decrease in revenues from Dasa's satellites division, which was attributable to the fact that in 1999 the importance of projects in which Dasa acted as prime contractor, in which sub-contracted activities are reflected on its income statement, decreased compared with 1998.

CASA's IAS revenues increased 16.4% from Euro 800 million in 1998 to Euro 931 million in 1999, resulting principally from a substantial increase in exports of military and civil aircraft.

An important non-operational factor that had a significant positive effect on EADS' revenue stream in 1999, given the importance of EADS' dollar-denominated sales, was the strengthening of the dollar against the Euro over the course of 1999.

For discussion of the impact of exchange rate variations on EADS' results of operations and EADS' hedging policy, see “— Exchange Rate Management Policy” and “— Accounting Considerations — Revenue and Cost Recognition.”

Cost of sales

Pro forma cost of sales for EADS increased 10.8% from Euro 16,489 million in 1998 to Euro 18,278 million in 1999. This increase was due in large part to increases in production and sales of Airbus aircraft.

IAS cost of sales at Aerospatiale Matra increased 7.2% from Euro 8,977 million in 1998 to Euro 9,624 million in 1999, mostly as a result of an increase in personnel expenses related to stepped-up production of Airbus aircraft and costs related to technical problems with certain satellite solar arrays. Dasa's cost of sales increased 7.6% from Euro 5,495 million in 1998 to Euro 5,914 million in 1999. Costs relating to raw materials and services purchased remained essentially unchanged from one year to the other, while personnel expenses increased, primarily due to additional hires by the Airbus division. The cost of sales was also affected by the adjustment of provisions made in respect of loss at completion on certain contracts.

Selling, administrative and other expenses

Pro forma selling, administrative and other expenses for EADS decreased 6.9% from Euro 2,378 million in 1998 to Euro 2,213 million in 1999. Much of the decrease was attributable to the fact that Dasa discharged in 1998 its remaining obligations to the Federal Republic of Germany. An expense of Euro 229 million was recorded in 1998 in connection with this discharge of obligations. See “— Refundable Governmental Advances.”

Aerospatiale Matra's IAS selling, administrative and other expenses remained essentially unchanged from 1998 to 1999, in spite of the increase of revenues from Euro 1,351 million to Euro 1,358 million. Dasa's IAS expenses decreased approximately 20.5% from Euro 833 million in 1998 to Euro 662 million in 1999, largely as a result of the discharge of its obligations to the Federal Republic of Germany mentioned above. CASA's IAS expenses in this category decreased 19.8% from Euro 121 million to Euro 97 million resulting from a number of non-recurring extraordinary expenses recorded in 1998, as well as a small decrease in revenues related to aircraft deliveries in 1999.

Research and development

EADS' pro forma research and development expenses amounted to Euro 1,324 million in 1999 compared with Euro 1,232 million in 1998, representing an increase of 7.5%, primarily due to long-range civil and military aircraft programs.

Other income

Other income represents principally gains on sales of investments and fixed assets, rental income and from reversals of provisions (as well as, in 1997, certain currency gains). EADS had other income, calculated on a pro forma basis, in 1999 of Euro 475 million compared with Euro 710 million in 1998, representing a decrease of 33%.

Aerospatiale Matra's IAS other income decreased nearly 34% from Euro 472 million in 1998 to Euro 312 million in 1999, largely as a result of decreases in gains derived from the sale of non-core assets in 1999 compared with 1998. Dasa's IAS other income decreased from Euro 200 million in 1998 to Euro 150 million in 1999, also as a consequence of non-recurring gains made on the sale of CMS Inc. recorded in 1998.

Income before financial income and income taxes

Pro forma income before financial income and income taxes of EADS increased by 3.8% from Euro 785 million in 1998 to Euro 815 million in 1999, which resulted from the factors discussed above.

Aerospatiale Matra's IAS income before financial income and income taxes decreased 10.0% from Euro 833 million in 1998 to Euro 750 million in 1999, while Dasa's remained essentially unchanged, amounting to Euro 464 million in 1998 as compared with Euro 461 million in 1999. CASA's income before financial income and income taxes increased by 70.1% during the same period from Euro 67 million in 1998 to Euro 114 million in 1999.

Financial income (expense), net

Financial income (expense), net includes principally investment income (including gains or losses of companies accounted for under the equity method), net interest expense and exchange rate gains or losses. Financial income (expense) of EADS established on a pro forma basis for 1999 consists of a net loss of Euro 1,846 million in 1999 compared to a net gain of Euro 1,005 million in the preceding year.

In 1998, Aerospatiale Matra recorded IAS financial income, net of Euro 620 million; in 1999 it reported financial expense, net of Euro 1,724 million. This net financial expense resulted largely from the negative variation in the marked-to-market valuation of the Aerospatiale Matra financial instrument portfolio, which is a consequence of the application of macro hedge accounting. See “— Exchange Rate Management Policy — Aerospatiale Matra's Exchange Rate Management Policy.” See also “— Accounting Considerations — Revenue and Cost Recognition.”

Dasa, on the other hand, reported IAS financial income, net of Euro 223 million in 1998, while it reported financial expense, net of Euro 89 million in 1999. Much of the net expense reported in 1999 resulted from the negative variation in the marked-to-market valuation of the Dasa financial instrument portfolio, which is a consequence of the application of macro hedge accounting. It also resulted from a decrease in interest income due to the lower liquidity resulting from the repayment of Airbus commitments to the German government.

Income (loss) before income taxes

Pro forma income before income taxes amounted to Euro 1,790 million in 1998, compared with a loss of Euro 1,031 million in 1999.

Income taxes

In 1998, EADS' income tax expense totaled Euro 585 million, compared with a tax benefit of Euro 24 million in 1999.

In 1998, Aerospatiale Matra's IAS income tax expense totaled Euro 427 million, while in 1999 it reported an income tax benefit totaling Euro 352 million resulting principally from deferred taxes recorded in connection with the restatement of financial instruments under IAS.

Dasa's IAS income tax expense increased approximately 69% from Euro 240 million in 1998 to Euro 405 million in 1999. In 1999 German tax laws were changed, which resulted in a reduction in the retained corporate income tax rate from 45% to 40% and a broadening of the tax base. The effects of the changes in the German tax laws were recognized as a charge of Euro 233 million in 1999.

Net income

EADS experienced a pro forma IAS net loss of Euro 1,009 million in 1999, compared with pro forma net income of Euro 1,189 million in 1998.

Results of Operations: Fiscal Year 1998 Compared with 1997

Revenues

Total pro forma revenues for EADS increased 9.1% from Euro 18,865 million in 1997 to Euro 20,584 million in 1998. The principal reason for the development was a substantial increase in deliveries of commercial aircraft, particularly of Airbus.

Aerospatiale Matra's IAS pro forma revenues amounted to Euro 11,472 million in 1998, an increase of 3.1% over pro forma revenues of Euro 11,131 million in 1997, resulting primarily from increased deliveries of Airbus aircraft. This was offset in part by the spin-off of the satellite activities of the former Aerospatiale in 1998, which contributed Euro 488 million to revenues in 1997.

Dasa's IAS revenues increased 12.9% from Euro 6,303 million in 1997 to Euro 7,115 in 1998. This was due to significant increases in revenues in all of Dasa's business lines with the exception of satellites, which saw a significant decrease, a reflection of the trend towards a lower value of work carried out by subcontractors. The most significant revenue increase was in the commercial aircraft division, particularly with respect to deliveries by Dasa to Airbus Industrie of aircraft sub-assemblies. Also important were increases in revenues in Dasa's defense and civil systems division, particularly in connection with the acquisition of SI Sicherheitstechnik GmbH & Co. KG.

CASA's pro forma revenues increased 7.5% from Euro 744 million in 1997 to Euro 800 million in 1998, due principally to increases in exports of military and civil aircraft.

Cost of sales

Pro forma cost of sales in 1998 increased to Euro 16,489 million, a 8.0% increase over cost of sales of Euro 15,270 million in 1997. Much of the increase was attributable to increased production of commercial aircraft.

Aerospatiale Matra's IAS cost of sales increased 2.9% from Euro 8,724 million in 1997 to Euro 8,977 million in 1998. Dasa's IAS cost of sales increased 5.0% from Euro 5,233 million in 1997 to Euro 5,495 million in 1998, reflecting accounting effects relating to provisions made in respect of profitability estimations on certain contracts. Much of the increase for Aerospatiale Matra, Dasa and CASA was related to increased production of Airbus aircraft.

Selling, administrative and other expenses

Pro forma selling, administrative and other expenses remained stable, amounting to Euro 2,377 million in 1997 and to Euro 2,378 in 1998.

Aerospatiale Matra's IAS selling, administrative and other expenses increased 11.1% from Euro 1,216 million in 1997 to Euro 1,351 million in 1998. Dasa's IAS expenses decreased 16.5% from Euro 998 million in 1997 to Euro 833 million in 1998, due in part to the realization of benefits derived from its cost savings program.

Research and development

Pro forma research and development expenses amounted to Euro 1,232 million in 1998, an increase of 13.0% compared with Euro 1,090 million in 1997.

Aerospatiale Matra's R&D IAS expenses increased slightly from Euro 644 million in 1997 to Euro 655 million in 1998. This increase was primarily attributable to an increase in research and development expenses in connection

with the Airbus program, offset in part by the spin-off of Aerospatiale's satellite activities in 1998 and the completion of certain development programs relating to missile systems. Dasa's corresponding expenses increased by approximately 24% to Euro 507 million in 1998 from Euro 409 million in 1997, which was primarily due to marked increases in research and development activity relating to both commercial and military aircraft development programs.

Other income

EADS had pro forma other income (net) in 1998 of Euro 710 million, an increase of 55% compared with Euro 458 million in 1997.

IAS other income at Aerospatiale Matra increased from Euro 104 million in 1997 to Euro 472 million in 1998, which resulted primarily from gains resulting from the spin-off of Aerospatiale's satellite activities. Conversely, IAS other income at Dasa decreased approximately 44% from Euro 355 million in 1997 to Euro 200 million in 1998, mainly as a consequence of a decrease in income from foreign exchange gains, which was offset in part by Euro 58 million gain on the sale of CMS Inc.

Income before financial income and income taxes

As a consequence of the factors discussed above, pro forma income before financial income and income taxes of EADS increased 329% from Euro 183 million in 1997 to Euro 785 million in 1998.

Aerospatiale Matra's IAS income before financial income and income taxes increased approximately 59% from Euro 524 million in 1997 to Euro 833 million in 1998, while Dasa's increased from Euro 8 million in 1997 to Euro 464 million in 1998.

Financial income (expense), net

Financial income consists principally of income from investments (including gains or losses of companies accounted for under the equity method), net interest expense and exchange rate gains or losses. EADS' pro forma financial income, net amounted to Euro 1,005 million in 1998, compared with financial expense, net of Euro 1,747 million in 1997.

Aerospatiale Matra recorded IAS financial income, net of Euro 620 million in 1998 compared to IAS financial expense of Euro 1,323 million in 1997. Much of the net financial income reported in 1998 resulted from the positive variation in the marked-to-market valuation of the Aerospatiale Matra financial instrument portfolio, which was a consequence of the macro hedge accounting. See “— Exchange Rate Management Policy — Aerospatiale Matra's Exchange Rate Management Policy” and “— Accounting Considerations — Revenue and Cost Recognition.”

Dasa recorded IAS financial income, net of Euro 223 million in 1998 compared with IAS financial expense, net of Euro 321 million in 1997. This variation was principally a result of the positive valuation of the marked-to-market Dasa financial instrument portfolio, which was a consequence of the macro hedge accounting. However, the financial income for 1998 was offset in part by net losses at companies consolidated using the equity method. See “— Exchange Rate Management Policy — Dasa's Exchange Rate Management Policy” and “— Accounting Considerations — Revenue and Cost Recognition.”

Income (loss) before income taxes

As a result of the factors discussed in the preceding paragraphs, pro forma income before income taxes amounted to Euro 1,790 million in 1998, compared with a pro forma loss of Euro 1,564 million in 1997.

Income taxes

In 1998 EADS' pro forma income tax expense totaled Euro 585 million, compared with an income tax benefit of Euro 596 million in 1997.

In 1998, Aerospatiale Matra had IAS income tax expense totaling Euro 427 million, while in 1997 it recorded an income tax benefit totaling Euro 320 million associated with the revaluation of financial instruments. Dasa had IAS income tax expense totaling Euro 240 million in 1998, compared with an IAS income tax benefit of Euro 208 million in 1997 associated with the loss for that year.

Net income (loss)

As a consequence of the factors discussed above, EADS had pro forma net income of Euro 1,189 million in 1998, compared with a pro forma net loss of Euro 983 million in 1997.

Liquidity and Capital Resources

The following table sets forth a summary of the unaudited pro forma combining statement of cash flows for the year ended December 31, 1999.

	<u>Year ended</u> <u>December 31, 1999</u> (in millions of Euro)
Net cash flows provided by operating activities	1,538
<i>Including changes in working capital</i>	783
Net cash flows used in investing activities.....	(1,340)
Net cash flows used in financing activities.....	(275)
Effect of foreign exchange rate changes on cash and cash equivalents.....	(27)
Net decrease in cash.....	(104)
	 <u>Year ended</u> <u>December 31, 1999</u> (in millions of Euro)
Cash and cash equivalents ⁽¹⁾	
At the beginning of the year	4,854
At the end of the year.....	<u>4,750</u>
Change in cash and cash equivalents	<u>(104)</u>

(1) Includes securities.

Cash provided by operating activities of Euro 1,538 million was principally generated from the sales of aircraft by Airbus Industrie and an increase in the amount of customers' prepayments, partly offset by the repayments by Dasa in respect of German refundable governmental advances and also through the costs incurred as a result of the change in Aerospatiale Matra's exchange rate management policy. See "— Accounting Considerations — Refundable Governmental Advances" and "— Exchange Rate Management Policy."

Cash used for investing activities of Euro 1,340 million was principally due to payments for the purchase of fixed assets primarily for the purpose of modernizing and enlarging technical plant and equipment. Additionally, the cash outflow was caused mainly by an increase in investments in aircraft by Airbus and ATR leasing and financing companies. These cash outflows were partly offset by the proceeds from sales of businesses and fixed assets mainly consisting of the sale of Sextant Avionique to Thomson-CSF.

Cash used for financing activities of Euro 275 million was principally the result of the dividends paid by Dasa to its parent. This effect was, in large part, offset by an increase in the financial liabilities of Airbus and ATR, primarily reflecting an increase in the volume of funding related to Airbus and ATR leasing and financing activity.

Capital Expenditures

Capital expenditures incurred during the year ended December 31, 1999 were funded by cash from operations and through external financings. These capital expenditures related principally to various aircraft developments programs.

Set forth below is a summary of historical capital expenditure information for each of Aerospatiale Matra, Dasa and CASA for the three-year period ended December 31, 1999.

Aerospatiale Matra Capital Expenditures⁽¹⁾

	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(in millions of Euro)		
Acquisitions of intangible assets.....	36	31	56
Acquisitions of property, plant and equipment	319	302	463
Acquisitions of investments in long-term financial assets	<u>102</u>	<u>331</u>	<u>88</u>
TOTAL.....	<u>457</u>	<u>664</u>	<u>607</u>

(1) In this table, the 1999 Aerospatiale Matra figures correspond to the consolidated figures contained in the Audited Financial Statements of Aerospatiale Matra. Furthermore, for 1997 and 1998, figures are for Aerospatiale only.

Dasa Capital Expenditures

	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(in millions of Euro)		
Acquisitions of intangible assets.....	17	21	18
Acquisitions of property, plant and equipment	221	291	283
Acquisitions of investments in long-term financial assets	<u>53</u>	<u>137</u>	<u>71</u>
TOTAL.....	<u>291</u>	<u>449</u>	<u>372</u>

CASA Capital Expenditures

	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(in millions of Euro)		
Acquisitions of intangible assets.....	4	2	1
Acquisitions of property, plant and equipment	25	51	66
Acquisitions of investments in long-term financial assets	<u>4</u>	<u>1</u>	<u>4</u>
TOTAL.....	<u>33</u>	<u>54</u>	<u>71</u>

For the period 2000 to 2002, it is estimated that upwards of one-half of EADS's capital expenditures will be made in connection with Airbus activities, such as the development and establishment of production facilities for Airbus aircraft. In particular, the launch of a development program for the A3XX ultra-large aircraft would involve substantial capital expenditures and research and development expenses as part of the Euro 11 to 12 billion development program. See "Business Description — Airbus — Products and Services." Other capital expenditures would involve the expansion and completion of the production facilities for single-aisle and for long-range aircraft, such as the A340-500/600.

Capital Resources and Other Financing

EADS generally finances its manufacturing activities and product development programs, and in particular the development of new commercial aircraft, through a combination of funds generated by operating activities, customer prepayments, risk-sharing partnerships with sub-contractors and refundable governmental advances. In addition, EADS' military activities benefit from government financed research and development contracts.

In addition to these financing sources, Aerospatiale Matra has obtained financing from (1) the issuance of bonds with maturities varying from one to five years, (2) short-term treasury notes (*billets de trésorerie*), (3) bank loans and (4) financing leases mainly related to assembly plants and research and development centers. Aerospatiale Matra's outstanding indebtedness of these types amounted to approximately Euro 2 billion at year-end 1999. Aerospatiale Matra has at its disposal a U.S.\$ 500 million outstanding line of credit.

The Unaudited Pro Forma Combining Financial Information does not reflect the proceeds that would be raised from the Offering.

**UNAUDITED RECONCILIATION FROM PRO FORMA AND HISTORICAL FRENCH GAAP
TO IAS — AEROSPATIALE MATRA**

The amounts below are expressed net of income taxes.

	Year ended December 31,		
	1997	1998	1999
	Pro Forma	Pro Forma	Historical
	(in millions of Euro)		
Net income under French GAAP	411	436	30
Acquisition accounting and goodwill	(135)	(135)	(135)
Refundable advances	89	181	73
Derivative exchange contracts	(798)	542	(596)
Revenue recognition	(39)	(8)	(32)
Consolidation of financing entities	(15)	(2)	(10)
Provision for restructuring costs	(4)	1	29
Tooling amortization	<u>3</u>	<u>(4)</u>	<u>(3)</u>
Net income (loss) under IAS	<u>(489)</u>	<u>1,010</u>	<u>(644)</u>

	December 31,	
	1998	1999
	Pro Forma	Historical
	(in millions of Euro)	
Shareholders' equity under French GAAP	1,744	1,613
Acquisition accounting and goodwill	2,571	2,436
Refundable advances	(1,333)	(1,260)
Derivative exchange contracts	(214)	(812)
Revenue recognition	(158)	(219)
Consolidation of financing entities	(57)	(66)
Provision for restructuring costs	9	39
Tooling amortization	<u>51</u>	<u>48</u>
Shareholders' equity under IAS	<u>2,613</u>	<u>1,778</u>

See accompanying notes to unaudited reconciliations to IAS.

SUMMARY OF DIFFERENCES BETWEEN AEROSPATIALE MATRA ACCOUNTING PRINCIPLES, IAS AND U.S. GAAP

The consolidated financial statements of Aerospatiale Matra and its predecessor companies, Aerospatiale and MHT, appearing elsewhere in this prospectus, and Dassault Aviation, have been prepared in accordance with accounting principles generally accepted in France ("French GAAP"), which differ in certain respects from IAS and from accounting principles generally accepted in the United States ("U.S. GAAP").

The following is a summary of the significant differences between French GAAP and IAS that may affect Aerospatiale Matra's consolidated net income and consolidated shareholders' equity for the periods presented. The IAS adopted by EADS conform in all material respects with U.S. GAAP, except that EADS will account for certain joint ventures using the proportionate method of consolidation. U.S. GAAP requires that joint ventures be accounted for using the equity method of accounting. Application of the equity method as compared with the proportionate method of consolidation has no effect on net income or shareholders' equity. EADS intends to expense all development costs as incurred, which is required under U.S. GAAP. IAS, however, require that development costs be capitalized as an intangible asset in the period in which they are incurred if certain criteria for asset recognition are met.

The description of significant differences below does not identify disclosure, presentation or classification differences that would affect the manner in which the transactions and events are presented in Aerospatiale Matra's consolidated financial statements if they were prepared in accordance with IAS or U.S. GAAP.

Acquisition accounting and goodwill

The contribution of MHT by Lagardère to Aerospatiale was effected by way of a share-for-share exchange of MHT shares for Aerospatiale Matra shares. Determination of the resulting goodwill was made on the book value basis of these shares and partially offset against retained earnings.

Aerospatiale Matra recorded its 45.76 percent interest in Dassault Aviation at book value. Existing goodwill in Dassault Aviation has been offset against retained earnings.

Under IAS or U.S. GAAP, the equity investment in MHT and Dassault Aviation equivalent to the consideration paid would represent the fair values of the underlying assets and liabilities of MHT and Dassault Aviation and goodwill, the latter being the difference between the fair values of the net assets and the consideration. Goodwill would be amortized over the estimated useful economic life of the investment.

Refundable advances

Refundable advances are recorded in income as received, reimbursements are recorded as expense as revenues are generated and repayments become due.

Under IAS or U.S. GAAP, refundable advances would continue to be recorded as a liability until such time as all conditions that might lead to repayment had been eliminated. At such time, the advances would be recorded as income.

Forward and derivative exchange contracts

Aerospatiale Matra enters into various forward and option contracts to limit overall exposure to foreign currency fluctuations, in particular to the U.S. dollar. Aerospatiale Matra hedges anticipated dollar revenue streams, net of expenses, from receivables relating to firm contracts. Under French GAAP, these contracts are treated as hedging agreements and since Aerospatiale Matra uses a zero premium strategy, payments for purchases of put options and funds from sales of call options are immediately recorded in operating income.

Under IAS or U.S. GAAP, these instruments would not qualify as hedges and consequently are marked to market and changes in their market value are reflected as exchange gains or losses in the statement of income.

Translation of foreign currency income and expenses

Foreign currency income and expenses of Airbus Industrie are translated at the average rate of related firm and optional foreign currency hedges.

Under IAS or U.S. GAAP income and expenses would be translated at their weighted average exchange rate for the period, and foreign currency hedges translated at the spot rate at the balance sheet date.

Revenue recognition

Revenues from in-house products (aircraft) are recognized upon delivery, provided that there is a firm contract and that no significant costs are expected to be incurred subsequently.

Under IAS or U.S. GAAP, the sale of aircraft including value guarantee commitments are accounted for as operating leases and not as sales when the value guarantee risk is considered material.

Consolidation of finance companies

Investments in finance subsidiaries whose operations are directly related to the ATR and Airbus GIE and whose debt is guaranteed by Aerospatiale Matra, are currently accounting for at cost.

Under IAS or U.S. GAAP, the assets and debt of such financial companies would be fully consolidated.

Provision for restructuring costs

Certain personnel costs included in restructuring provisions do not meet the criteria for recognition of a liability set forth in IAS or U.S. GAAP. In particular, severance provisions under French GAAP are recorded before a detailed restructuring plan is communicated to employees.

Under IAS or U.S. GAAP such a plan, which would require to be enacted without delay, would identify the benefits to be paid, the categories and numbers of employees concerned.

Tooling amortization

Tooling expenses are capitalized and immediately depreciated on a straight line basis over their useful life.

Under IAS or U.S. GAAP, depreciation starting date is deferred to the first commercial delivery of the corresponding program.

UNAUDITED RECONCILIATION FROM HISTORICAL U.S. GAAP TO IAS — DASA

	Year ended December 31,		
	1997	1998	1999
	(in millions of Euro)		
Net income (loss) under U.S. GAAP	(115)	424	(39)
— no differences	—	—	—
Net income (loss) under IAS	(115)	424	(39)
		December 31,	
		1998	1999
		(in millions of Euro)	
Net assets under U.S. GAAP		3,203	2,397
— no differences		—	—
Net assets under IAS		3,203	2,397

See accompanying notes to unaudited reconciliation to IAS.

SUMMARY OF DIFFERENCES BETWEEN DASA ACCOUNTING PRINCIPLES, IAS AND U.S. GAAP

The audited combined financial statements of Dasa appearing elsewhere in this prospectus have been prepared in accordance with U.S. GAAP, except for the use of the proportionate method of consolidation as discussed below, which differ in certain respects from IAS.

The IAS adopted by EADS conform in all material respects with U.S. GAAP, except that EADS will account for certain joint ventures using the proportionate method of consolidation. U.S. GAAP requires that joint ventures be accounted for using the equity method of accounting. Application of the equity method as compared with the proportionate method of consolidation has no effect on net income or net assets. EADS intends to expense all development costs as incurred, which is required under U.S. GAAP. IAS, however, require that development costs be capitalized as an intangible asset in the period in which they are incurred if certain criteria for asset recognition are met.

The description of significant differences does not identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in Dasa's audited combined financial statements if they were prepared in accordance with IAS or U.S. GAAP.

UNAUDITED RECONCILIATION FROM HISTORICAL SPANISH GAAP TO IAS — CASA

	<u>Year ended December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
	<u>(in millions of Euro)</u>		
Net income under Spanish GAAP	39	47	81
Asset revaluation.....	2	4	3
Voluntary early retirement and voluntary severances.....	6	2	(17)
Revenue recognition.....	14	5	—
Corporate income taxes.....	—	10	2
Tax effects of IAS adjustments.....	<u>(8)</u>	<u>(3)</u>	<u>5</u>
Net income under IAS.....	<u>53</u>	<u>65</u>	<u>74</u>
	<u>December 31,</u>		
	<u>1998</u>	<u>1999</u>	
	<u>(in millions of Euro)</u>		
Shareholders' equity under Spanish GAAP	416	480	
Asset revaluation.....	(19)	(16)	
Voluntary early retirement and voluntary severances.....	17	—	
Revenue recognition	—	—	
Corporate income taxes	34	38	
Tax effects of IAS adjustments	<u>1</u>	<u>5</u>	
Shareholders' equity under IAS.....	<u>449</u>	<u>507</u>	

See accompanying notes to unaudited reconciliations to IAS

SUMMARY OF DIFFERENCES BETWEEN CASA ACCOUNTING PRINCIPLES, IAS AND U.S. GAAP

The consolidated financial statements of CASA appearing elsewhere in this prospectus have been prepared in accordance with generally accepted accounting principles in Spain, which differ in certain respects from IAS and from accounting principles generally accepted in the United States.

The following is a summary of the significant differences between Spanish GAAP and IAS that may affect CASA's consolidated net income and consolidated stockholders' equity for the periods presented. The IAS adopted by EADS conform in all material respects with U.S. GAAP, except that EADS will account for certain joint ventures using the proportionate method of consolidation. U.S. GAAP requires that joint ventures be accounted for using the equity method of accounting. Application of the equity method as compared with the proportionate method of consolidation has no effect on net income or shareholders' equity. EADS intends to expense all development costs as incurred, which is required under U.S. GAAP. IAS, however, require that development costs be capitalized as an intangible asset in the period in which they are incurred if certain criteria for asset recognition are met.

The description of significant differences below does not identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in CASA's consolidated financial statements if they were prepared in accordance with IAS or U.S. GAAP.

Asset revaluation

CASA's tangible fixed assets are carried at cost, revalued pursuant to Royal Decree-Law 7/1996 and previous enabling legislation. Such revaluations are only permitted under IAS on fulfillment of certain conditions.

The IAS adjustment includes a reduction in shareholders' equity to eliminate these revaluations and an increase in income for the year resulting from the recomputation of depreciation on a historical cost basis. In addition, a deferred tax asset has been recorded for the difference between IAS and the historical financial statement value.

Voluntary early retirement and voluntary severances

CASA's recorded accruals for voluntary early retirements and voluntary severances in 1996, 1997 and 1998 in accordance with Spanish GAAP since management had developed specific plans to implement personnel reductions in subsequent years. IAS requires that, in addition to management's plans, agreements need to be entered into with the employees involved prior to expensing such amounts.

In 1999, no adjustment is required because an agreement has been entered into with the employees before year end.

Revenue recognition

For Spanish GAAP purposes, revenues from manufactured products (aircraft) are recognized upon delivery. However, at year end, CASA recognizes revenues from manufactured products according to the "substantially completed contract method", whereby products delivered within two months from year end are recognized as revenues in the preceding year provided that there is a firm contract and that no significant costs are expected to be incurred.

IAS requires the use of the "percentage of completion" or the "completed contract" method.

Corporate income taxes

Under Spanish GAAP, deferred income taxes are recorded for timing differences between book and taxable income. The Spanish accounting principles for recording income taxes differ from those applicable under IAS with respect to the period in which certain prepaid and deferred taxes must be recorded. The main differences applicable to CASA are as follows:

- Under Spanish GAAP, deductible timing differences that are expected to reverse in more than ten years from the balance sheet date are not recorded as deferred tax assets.
- Under Spanish GAAP, tax credit carryforwards are not recognized until they are utilized.

BUSINESS DESCRIPTION

Background

With pro forma combined annual revenues of over Euro 22.5 billion in 1999, EADS is Europe's premier aerospace and defense company and the third largest aerospace and defense company in the world. In terms of market share, EADS is among the top two manufacturers of commercial aircraft, civil helicopters, commercial space launch vehicles and missiles, and a leading supplier of military aircraft, satellites and defense electronics. In 1999, it generated 76% of its sales in the civil sector and 24% in the military sector.

The creation of EADS marks a critical step in the consolidation of the European aerospace and defense industries started in December 1997 when a group of European heads of state and government invited the major European companies in these industries to seek strategic and industrial mergers.

EADS combines the businesses of:

- Aerospatiale Matra in the areas of commercial aircraft manufacturing (Airbus), military and commercial helicopter manufacturing (Eurocopter), aircraft maintenance and conversion, space systems (*e.g.*, Arianespace, Astrium), missiles and telecommunications;
- Dasa in the areas of commercial aircraft manufacturing (Airbus), military and commercial helicopter manufacturing (Eurocopter), military aircraft manufacturing (*e.g.*, Eurofighter), military and commercial aircraft maintenance and conversion, space systems (*e.g.*, Arianespace, Astrium), missiles, missile systems, telecommunications and defense systems; and
- CASA in the areas of commercial aircraft manufacturing (Airbus), military aircraft manufacturing (*e.g.*, Eurofighter), military transport aircraft manufacturing, military and commercial aircraft maintenance and conversion, and space systems (Arianespace).

EADS plans to organize its activities in these areas into the following five divisions: (1) Airbus, (2) Military Transport Aircraft, (3) Aeronautics (other than Airbus and Military Transport Aircraft), (4) Space and (5) Defense and Civil Systems. For a simplified diagram depicting the organization of these activities within these five divisions, see the illustration on page 6.

Strategy

EADS is a recognized leader in almost every sector of its operations, in significant part due to the longstanding collaboration among Aerospatiale Matra, Dasa and CASA in various major projects, including the Airbus consortium, Eurocopter, Eurofighter and Arianespace. The management of EADS ("Management") expects the integration of Aerospatiale Matra, Dasa and CASA to build upon these existing areas of successful cooperation by providing EADS with (1) a reinforced marketing organization with a stronger customer relationship network, (2) an extended global reach, (3) a more cohesive management structure, (4) a broader technological base and additional engineering expertise and (5) greater economies of scale.

EADS' objective is to be among the top two companies in every major market that it serves. EADS is positioning itself to compete and prosper in industries undergoing structural consolidation, and to play an enlarged role in a new competitive environment. The integration of Aerospatiale Matra, Dasa and CASA will entail a wide range of initiatives designed not only to improve margins, but also to enable EADS to take better advantage of future market opportunities in its core businesses, to respond better to the demands of its customers in its European home markets and to enlarge its export markets. Through this integration, EADS aims to maximize value for its shareholders and customers, and to be highly attractive to its employees.

To achieve this goal, EADS intends to embark on the following key strategic steps:

- **Capture integration benefits inherent in businesses that have been successfully cooperating for many years.**

Joint programs among Dasa, CASA and Aerospatiale Matra account for approximately 70% of EADS' total revenues. A unified management and shareholder structure will enable these joint businesses to execute their strategies more effectively and to apply a cross-divisional cooperation approach when appropriate.

- **Reap combination synergies.**

EADS intends to realize synergies by rationalizing business portfolios and marketing systems, eliminating duplication, harmonizing processes, optimizing research and development expenses and activities, strengthening its purchasing position and coordinating its bidding processes. These measures will aim at increasing margins and boosting profitability across product areas. Overall, EADS believes that these synergies will enable it to achieve its medium-term objective of an operating margin of 8% by 2004 (after taking into account Airbus development of the A3XX family of ultra-large aircraft and before depreciation of goodwill). See “Recent Developments and Outlook.”

- **Drive the consolidation process in the aerospace and defense industry.**

Aerospatiale Matra, Dasa and CASA collectively have a long and successful history of participation in almost every major European aerospace and defense industry partnership. They have worked in partnerships not only with each other (*e.g.*, Airbus consortium, Eurocopter, Eurofighter, and Arianespace), but also with other major European and American companies. EADS offers greater scale and a wider range of products and expertise than its individual founders, and consequently will be better positioned to lead the consolidation in its industry. In particular, it anticipates improved opportunities to initiate strategic alliances with the greatest long-term potential to expand market presence and share and to maximize profitability. Management believes that the benefits of this strategic positioning have already been demonstrated by the announcement in April 2000 of a prospective joint venture between EADS and Finmeccanica to create a European military aircraft company, strengthening their position in military aircraft and aerostructures.

Moreover, EADS is pursuing a number of other promising consolidation initiatives, such as (1) the consolidation of the European missile systems activities of EADS, Finmeccanica and BAE SYSTEMS plc, (2) the enlargement of Astrium’s satellites and orbital infrastructure activities with the contribution of Finmeccanica’s Alenia Spazio assets, (3) the creation of the Airbus Integrated Company which would combine the Airbus interests of EADS and BAE SYSTEMS into a single company, (4) potential transatlantic partnerships with key U.S. players to gain better access to the American defense market, and (5) participation in privatizations of aerospace and defense companies.

- **Exploit the enlarged technological base to satisfy client demands for complex, integrated solutions.**

EADS intends to leverage the combined technological expertise of Aerospatiale Matra, Dasa and CASA to satisfy the most stringent and complex customer specifications and to develop strongly differentiated applications. EADS plans to continue the focus of the three companies on state-of-the-art technology and innovation. Management believes that the integration of Aerospatiale Matra, Dasa and CASA will provide EADS with a technological platform that enhances its capability to innovate at the highest level across a broad spectrum of product areas and to meet customer demands through a range of new-generation products.

Pro Forma Financial and Operating Data of Each Division

The following table shows the amount and percentage of EADS' unaudited consolidated pro forma revenues for the year ended December 31, 1999 attributable to each EADS division.

Revenues by Division for the year ended December 31, 1999

	<u>Percentage⁽¹⁾</u>	<u>Amount in billions of Euro</u>
Airbus	54	12.6
Military Transport Aircraft	1	0.2
Aeronautics	18	4.3
Eurocopter	7	1.8
Eurofighter	2	0.5
Military Aircraft (excl. Eurofighter).....	3	0.8
Regional Aircraft.....	2	0.4
General Aviation Aircraft	1	0.2
Aircraft Maintenance and Conversion.....	3	0.7
Space.....	11	2.5
Defense and Civil Systems	16	3.8
Missiles	7	1.7
Defense Electronics/Telecommunications.....	9	2.2
Total Divisional Revenues before Adjustments/Eliminations	100	23.5
Adjustments/Eliminations ⁽²⁾		<u>(1.0)</u>
Total Pro Forma Consolidated Revenues.....		<u><u>22.6</u></u>

(1) Percentage of total divisional revenues before adjustments/eliminations.

(2) Includes *inter alia* intercompany eliminations and rental income from leases to subsidiaries.

The following tables provide operating data regarding EADS' orders booked for the year ended December 31, 1999 and backlog as of December 31, 1999.

Pro Forma Orders for the year ended December 31, 1999

	<u>Percentage</u>	<u>Amount in billions of Euro</u>
Orders booked (external):⁽¹⁾		
Airbus ⁽²⁾	63	20.7
Military Transport Aircraft	2	0.6
Aeronautics	15	4.9
Space.....	7	2.2
Defense and Civil Systems	<u>13</u>	<u>4.3</u>
Total.....	<u><u>100</u></u>	<u><u>32.7</u></u>
	<u>Percentage</u>	<u>Euro billions</u>
Backlog (external):⁽¹⁾		
Airbus ⁽²⁾	78	79.5
Military Transport Aircraft	—	0.7
Aeronautics	9	8.8
Space.....	4	4.4
Defense and Civil Systems	<u>9</u>	<u>9.0</u>
Total.....	<u><u>100</u></u>	<u><u>102.4</u></u>

(1) Without options.

(2) Based on catalog prices.

AIRBUS

Introduction and Overview

Airbus Industrie is one of the world's leading suppliers of commercial aircraft of more than 100 seats. Its market share of annual deliveries worldwide has grown steadily from 15% in 1990 to 32% in 1999. At December 31, 1999, its backlog of orders stood at 49% of total worldwide backlog, representing a 10% increase in volume from December 31, 1998. Airbus Industrie's steady growth is also reflected in increased revenues, which rose from Euro 11.6 billion in 1997 to Euro 13.3 billion in 1998 and Euro 16.7 billion in 1999.

Since its formation in 1970, Airbus Industrie has become the second largest supplier of commercial aircraft in the world, standing in close contention with its rival Boeing for first place. Between 1970 and March 31, 2000, Airbus Industrie received orders for 3,689 aircraft from 171 customers around the world.

Several factors have contributed to the success of Airbus: its portfolio of modern aircraft, its consistent technological innovation, its stable pool of highly skilled employees and its concept of aircraft "families" that offer customers cost savings in crew training, maintenance and supply for their fleets of different size Airbus aircraft. In addition, Management believes that the international composition of Airbus represents a competitive advantage in the global marketplace.

Airbus Industrie is a consortium that is jointly controlled directly or indirectly by: Aerospatiale Matra, Dasa, CASA and BAE SYSTEMS (the "Members"). See "— Organization of Airbus Industrie." By consolidating the Airbus Industrie membership of Aerospatiale Matra, Dasa and CASA (together, the "EADS Members"), EADS will hold 80% of the membership interests of Airbus Industrie and will share, to that extent, in the economic success of Airbus Industrie. For 1999, the Airbus Division of EADS earned pro forma revenues of Euro 12.6 billion, representing 54% of EADS' total pro forma revenues.

Management believes that the consolidation of the Airbus activities of Aerospatiale Matra, Dasa and CASA will enable the rationalization of resources, the optimization of the EADS Members' expertise and skill and the implementation of a unified strategy in relation to crucial aspects of the business, which will in time lead to the development of the following synergies:

- creating a streamlined management structure for the Airbus Division of EADS by eliminating duplication of functions previously performed by each EADS Member and consequently simplifying decision-making within Airbus Industrie;
- achieving efficiencies in procurement by concentrating purchasing power in order to secure more attractive terms from suppliers and realize significant savings; and
- concentrating and combining research and development resources by eliminating duplications while retaining competition among the various centers of excellence.

Strategy

The consolidation of 80% of the Airbus business under a single parent company will enable Airbus to operate more efficiently, allowing it to continue to execute more effectively its strategy of:

- *improving profitability;*
- *developing and reinforcing its presence in all the segments of the market, thus preventing its competitors from gaining a dominant market share in any one product;*
- *further improving the effectiveness and performance of existing programs, creating new versions and upgrades to take advantage of market opportunities, and introducing new technologies; and*
- *providing the market with environmentally-friendly products.*

Market

Cyclicality and Market Drivers

The main factors affecting demand in the aircraft market include passenger demand for air travel, cyclicality, national and international regulation (and deregulation), the rate of replacement and obsolescence of existing fleets, as well as the existence of airline alliances and the increase in the number of aircraft leasing companies.

Overall Growth. The market for passenger jetliners depends primarily on the demand for air travel which in turn drives the need for increases in the worldwide fleet. Demand for air travel is itself primarily driven by economic or GDP growth, fare levels and demographic growth. Since 1967, the air travel market has grown every year except for 1991 when the Gulf War led to a decline in air travel. Measured in revenue passenger kilometers, the air travel market has grown at an average annual rate of 8% since 1967. Airbus Industrie projects that it will grow at around 5% per annum over the next 20 years, which is consistent with the studies provided by Boeing.

Cyclical. Despite overall growth in the air travel market, the market for aircraft has been cyclical, in part because of the volatility of airline profitability and in part because of the cyclical nature of the world economy. When cyclical downturns have occurred, the consequence for Airbus (as for other aircraft manufacturers) has typically been a decrease in aircraft orders approximately one year later, resulting in lower deliveries after a further two years, although Airbus Industrie's deliveries have been stable or growing since 1994. When faced with reduced load factors and profits, certain airlines typically attempt to postpone orders for new aircraft until these factors improve.

The most recent downturn occurred against a background of airlines' strategy focusing on market share rather than profitability, which in turn led to an excessive increase in aircraft orders, higher financial gearing and lower profits. This phenomenon was compounded by the ease of obtaining aircraft finance and the numerous tax benefits then available to owners. However, airlines have since shifted their focus to profitability and debt to equity ratios have typically decreased. The flexibility of their existing fleet of aircraft has been improved in particular by the increased use of short and medium-term operating leases and a more dynamic management of their fleet of older aircraft. In addition, the presence of financially stronger lessors has, especially during the last decade, improved the availability of aircraft in the used aircraft market. This combination of factors has led to a dampening in the impact of cyclical nature on the aircraft manufacturing sector.

As with any GDP-driven development, it is difficult to predict how the remainder of the current cycle and the next cycle will develop. However, Management believes that it will be able to cushion the impact of a downturn by effective management, including the management of subcontracted work. This has been demonstrated during previous downturns during which, although the aggregate market for aircraft decreased, Airbus was able to capture a larger share of the reduced market, thereby cushioning the impact on its operations.

Regulation/Deregulation. Demand for passenger jetliners is affected by national and international regulation (and deregulation). From 1945, a system of strict bilateral agreements regulated international air services and major domestic air travel markets were similarly regulated. In 1978, the United States undertook the deregulation of its domestic air transportation system. Other regions have followed this model, notably Europe since 1985.

The FAA (Federal Aviation Authority) Stage 3 anti-noise regulations requiring operators to replace many older aircraft by the end of 1999 also had an impact on demand resulting in a significant increase in North American orders in recent years, with the North American market accounting for more than 31% of aircraft delivered in 1998 and 41% in 1999.

Airline Network Development: Hubs. As a consequence of deregulation policies, major airlines are constantly adapting their fleet, network and commercial strategies. This adaptation is possible because of the availability of new aircraft capable of meeting customer requirements in terms of cost and performance. In response to the price demands of passengers and competition of new low cost carriers, the major airlines have organized their operations around strategically located "hub" airports enabling them to link more cities at lower fares. This affects demand as the hub concept permits fleet standardization around both smaller single aisle aircraft types for the short and high frequency routes feeding the hubs (between hubs and spokes) and larger twin aisle aircraft for longer and higher density routes between the hubs (hub-to-hub).

The availability of new, small and medium size aircraft has also opened opportunities to airlines to offer point-to-point services on lower density routes to high yield passengers, bypassing hubs and offering a wider choice of non-stop destinations. As a result, worldwide deregulation has contributed to the diversification of airline strategies which in itself has resulted in airlines requiring a wider range of aircraft to implement such strategies.

Alliances. The development of world airline alliances is reinforcing these strategies. According to the Lundkvist Fleet Database published at the end of 1999, half of the world's jetliner fleet of over 70 seats is operated by the 22 largest airlines. In the 1990s, the major airlines began to enter into alliances that give each alliance member access to the other alliance members' hubs and routings, allowing airlines to reduce duplication of hubs. By 1999, according to studies published by JP Morgan, major airline alliances accounted for approximately 65% of all world scheduled airline traffic.

Governmental Funding. A 1992 bilateral agreement between the European Union and the United States provides for ceilings on repayable royalty-based loans (typically used by European governments) of 33% of the total costs of research and development of new large civil aircraft programs. It also provides for a ceiling at 3% of revenues for indirect support in relation to the development or production of large civil aircraft (typically the Department of Defense and NASA mechanisms used in the United States). This bilateral agreement has provided a level playing field for government support and reflects the needs of both Europe and the United States.

Market Structure and Competition

Market Segments. Currently, Airbus competes in two principal market segments: “single aisle” aircraft, which have 100 — 200 seats in two rows divided by a single aisle and which are used principally for short-range and medium-range routes; and “twin aisle” aircraft, which have a wider fuselage and more than 200 seats in three rows divided by two aisles and which are used in the case of the A300/A310 for short and medium range routes and in the case of A330/A340 for long-range routes. Cargo aircraft, which form a third, related segment, are often converted ex-passenger aircraft. See “— Aeronautics — Aircraft Conversion and Maintenance.” In addition, the A300-600F has been a successful all-new cargo aircraft with increasing popularity among major express courier providers, such as Federal Express and UPS.

According to a study conducted by Airbus Industrie, of a total of almost 10,000 aircraft in service at December 31, 1998, 72% were single aisle aircraft, while 28% were twin aisle aircraft. The table below shows the distribution of aircraft and percentage of single aisle and twin aisle aircraft by region at December 31, 1998.

	Aircraft		Configuration Percentage of	
	Percentage	Number of Aircraft in Service	Single aisle	Twin aisle
North America	42	4,097	84	16
Europe.....	27	2,698	67	33
Asia-Pacific	19	1,899	49	51
Africa and Middle East.....	5	499	64	36
South America	7	700	85	15
Total	<u>100</u>	<u>9,893</u>	<u>72</u>	<u>28</u>

Source: Airbus Industrie

The high proportion of single aisle aircraft in both North America and Europe reflects the predominance of domestic short-range and medium-range flights, particularly in North America due to the development of hubs following deregulation. In comparison with North America and Europe, the Asia-Pacific region uses a greater proportion of twin aisle aircraft, as the region’s airports limit the number of flights, thereby encouraging higher average aircraft seating capacity per flight.

According to manufacturers’ published figures, a total of 914 new passenger aircraft of more than 100 seats were delivered in 1999. Of these aircraft, 72% were single aisle, while 28% were twin aisle aircraft. The table below shows the number of aircraft delivered by region during 1999 and 1998.

Region	1998		1999	
	Number of Aircraft delivered in region	Percentage of total market of aircraft delivered	Number of Aircraft delivered in region	Percentage of total market of aircraft delivered
North America.....	247	31	371	41
Europe	168	21	215	23
Asia-Pacific.....	190	24	106	12
Rest of World.....	59	8	63	7
Leasing companies.....	128	16	159	17
Total.....	<u>792</u>	<u>100</u>	<u>914</u>	<u>100</u>

Source: Airbus Industrie

Sales to leasing companies constitute a separate market segment accounting for approximately 17% of aircraft deliveries, since leased aircraft are frequently operated in a different region from that of the leasing company’s home jurisdiction.

Competition. Airbus operates in a market which has become a duopoly following Lockheed's withdrawal from the market in 1986 and Boeing's acquisition of McDonnell Douglas in 1997. As a result, the market for passenger aircraft of more than 100 seats is now effectively divided between Boeing and Airbus. According to manufacturers' published figures, in 1999 Boeing and Airbus respectively accounted for 68% and 32% of total deliveries, 45% and 55% of total orders, and 51% and 49% of the total year-end backlog.

There are significant barriers to entry into the market for passenger aircraft of more than 100 seats. These barriers include the depth and complexity of technological know-how required, the difficulties involved in certification and the expense involved in developing a proven product support system (an essential ingredient for successful sales), all of which factors make it unlikely that a newcomer will be able to compete with either of the established suppliers competing in this market.

Products and Services

Technological Breakthroughs

Technological innovation has been at the core of Airbus' strategy since its creation. Many of its innovations which have provided a distinct competitive advantage have subsequently become standard in the aircraft industry.

- A300 — The Airbus A300 was the world's first twin-engine twin aisle commercial aircraft. This feature gave it a distinctive advantage in terms of fuel burn and maintenance costs over its three-engine and four-engine competitors for the short-medium range.
- A310 — The Airbus A310, brought to the market in 1983, featured the first digitally imaged cockpit displays, using cathode ray tubes as opposed to the traditional mechanical display. This made it possible to provide the pilot with more capable flight and navigation displays and a unique centralized, easy access aircraft monitoring. It was also the first twin aisle commercial aircraft certified for a two-member flight crew, resulting in lower operational costs as compared to three-member crew operated aircraft which was the industry standard at the time. The implementation of automated systems and the integration of Digital Flight Guidance both helped to ensure a high level of safety.

New efficient aerodynamic concepts were also introduced, such as supercritical airfoil and the high aspect-ratio transonic wing, which brought a significant improvement in fuel burn. Carbon fiber reinforced composite materials were introduced for major structures such as the vertical fin and rudder, with significant weight savings as compared to aluminum, resulting in increased payload capability. The installation of a trim tank in the horizontal stabilizer increased operators' savings significantly due to the efficient control of the center of gravity in order to enable optimized aircraft conditions in flight.

- A320 — Airbus was the first to introduce digital fly-by-wire controls with the Airbus A320 in 1988, introducing pilot commands through a side stick controller instead of the traditional control column. Flight-control computers translate these commands into electrical signalling for the moving surface actuators and, at the same time, can prevent the aircraft going beyond the prescribed safe flight envelope. Compared to the traditional mechanical flight controls, this brought increased maneuverability, simplified operations through digital link-up with the autopilot system and weight reduction. The fly-by-wire concept is now featured on all Airbus single aisle aircraft as well as the A330/A340 series. Airbus' U.S. competitors did not introduce fly-by-wire controls until later. Composite materials are also used more extensively in the A320, in particular for the horizontal tail plane.
- A330/A340 — Airbus technologies were further enhanced in the A330/A340 long-and super- long-range aircraft family. This twin aisle family incorporates enhanced application of the A310/A320 technologies and wing commonality for two-and four-engine solutions — a unique concept. The ultra-long-range A340-500/600, now in development, features a fully electrical rudder control system and the use of composite materials for large primary structure (the 15m-long keel beam) and the rear cabin pressure bulkhead, both technological breakthroughs bringing significant weight savings.

The Family Concept — Commonality across the Fleet

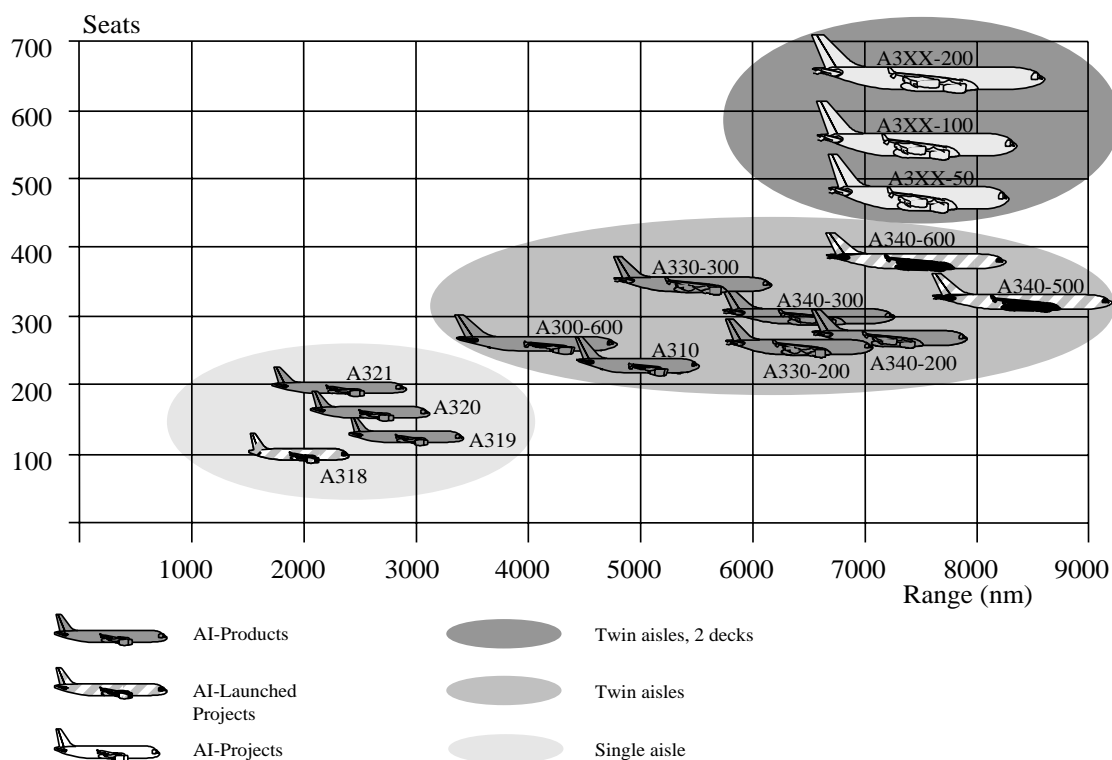
Airbus' three families of aircraft follow a "minimum change" strategy, which consists of developing a central aircraft concept from which it creates derivatives for different market segments. The "minimum change" concept means that (with the exception of the A300/310) all Airbus aircraft share the same cockpit design and all have fly-by-wire controls and virtually identical handling characteristics. Pilots can fly any aircraft within the A320 family of aircraft with minimal additional training, and cross-crew qualification (CCQ) across families of aircraft provides airlines with significant operational flexibility.

This minimum change strategy helps to reduce development costs and also permits aircraft operators to realize significant cost savings in crew training, spare parts, maintenance and aircraft scheduling. In addition, there is a higher probability that fleet expansion within the respective family can take place without a requirement for additional investments in new simulators.

The extent of cockpit commonality within and across families of aircraft is a unique feature of Airbus. Management believes that cockpit commonality contributes significantly to the success of Airbus as many of its customers purchase different aircraft types within the same family.

Airbus Aircraft

Airbus Industrie Current Products and Projects



Short- and medium-range single aisle Aircraft: the A320 Family

Airbus' family of single aisle aircraft, based on the Airbus A320 (which entered service in 1988 following a development program launched in 1984), includes the A319 and A321 derivatives, as well as the A319-based Airbus Corporate Jetliner, a business jet derivative, which Airbus Industrie commenced marketing in June 1997.

Each aircraft in the A320 family shares the same fuselage diameter of 3.96 meters which is wider than any competing single aisle aircraft. The wider fuselage diameter provides a roomy passenger cabin, a high comfort level and a more capacious underfloor cargo volume than its competitors. The A320 family incorporates full digital fly-by-wire controls and an ergonomic cockpit featuring a simplified layout in which sidestick controllers replace traditional central control columns. All current production models feature a lightweight carbon fiber composite horizontal stabilizer, based on the one which Airbus first developed for the Airbus A310-300. The A320 family's competitors are the Boeing 737, 757 and 717 aircraft.

The A318. The A318 aircraft is a shortened version of the A319, designed to satisfy demand for aircraft in the 100 to 120 seat range. Following its launch in 1999, Airbus Industrie has received 120 firm orders for A318 aircraft with entry into service planned for 2002.

The table below shows the technical features of, orders for, and deliveries of the Airbus single aisle family at December 31, 1999.

Single Aisle Technical Features

<u>Model</u>	<u>Entry into service</u>	<u>Passenger capacity</u>	<u>Maximum range (km)</u>	<u>Length (meters)</u>	<u>Wingspan (meters)</u>	<u>Total ordered</u>	<u>Total delivered</u>
A318.....	2002 ⁽¹⁾	106	5,200	31.4	34.1	120	0
A319.....	1996	124-145	6,500	33.8	34.1	583	206
A320.....	1988	150-180	5,500	37.6	34.1	1,287	792
A321.....	1994	185-220	5,500	44.5	34.1	312	144

(1) Planned date.

Source: Airbus Industrie

Short- and extended-range twin aisle Aircraft: the Airbus A300/A310 Family

The A300/A310 aircraft were the initial models of the Airbus product line and are designed for short-and-medium range routes. The A300, which entered into service in 1974, was the world's first twin aisle, twin-engine aircraft. The current version of the A300, the A300-600, entered service in 1987. The A300-600 is also available in freighter and convertible passenger-freighter configurations and the A300-600 Freighter, in service with Federal Express since 1994, is capable of carrying more than 50 tons of cargo.

In 1988, Airbus introduced the extended-range A300-600R, which has a range of up to 7,700 km (4,150 nm) and carries 266 passengers in its standard configuration. The A300-600 incorporated the lightweight carbon fiber composite stabilizer developed for the A310. The A310, which was developed as a minimum change aircraft based on the A300, entered service in 1983, incorporating a digital electronic cockpit for the first time in civil aviation history. As of December 31, 1999, 780 of this family of aircraft had been ordered by 85 different customers, of which 744 had been delivered.

The table below shows the technical features of, and orders for, the Airbus A300 and A310 family at December 31, 1999.

A300/A310 Technical Features

<u>Model⁽¹⁾</u>	<u>Entry into service</u>	<u>Passenger capacity⁽²⁾</u>	<u>Maximum range (km)</u>	<u>Length (meters)</u>	<u>Wingspan (meters)</u>	<u>Total ordered</u>	<u>Total delivered</u>
A300.....	1974	266	7,700	54.1	44.8	520	489
A310.....	1983	220	9,600	46.7	43.9	260	255

(1) All versions of A300/310 including freighters.

(2) Two-class lay-out.

Source: Airbus Industrie

Long- and super-long-range twin aisle Aircraft: the Airbus A330/A340 Family

Airbus developed the twin-engine A330 and long-range four-engine A340 as a joint program, using the same wing design for both aircraft and retaining the wide fuselage cross section of the existing A300/A310 family. The A330/A340 family, offering comprehensive long-range and super-long-range route coverage, is the worldwide market leader in the 250-350 seat category in terms of total aircraft ordered. The A330-200, a new long-range version of the A330 which entered service in 1998, has a range of up to 12,000 km (6,450 nm). The four-engine A340-300 is capable of flying non-stop with a full passenger payload up to 13,500 km (7,300 nm). At December 31, 1999, 301 aircraft were in service, with orders for 249 additional aircraft.

In 1997, Airbus began development of the A340-500 and A340-600 derivatives. These new aircraft will feature a stretched fuselage, extended range and increased maximum take-off weight. They will offer CCQ with existing A330/A340 models. The A340-500, expected to become available in late 2002, is expected to offer more single point-to-point trans-Pacific routings than other aircraft. It is expected to carry 313 passengers in three classes on routes of up to 15,750 km (8,500 nm), allowing non-stop flights such as New York-Taipei or Toronto-Hong Kong. Airbus has selected the engines to power the new versions and began making firm commercial offers to customers in 1997. To date, Airbus Industrie has received orders and commitments for more than 110 new A340-500 and A340-600 aircraft. The competitors of this family are the Boeing 767, 777 and 747 aircraft.

The table below shows the technical features of, orders for and deliveries of, the Airbus A330/A340 family at December 31, 1999.

A330/A340 Technical Features

<u>Model</u>	<u>Entry into service</u>	<u>Passenger capacity⁽¹⁾</u>	<u>Range (km)</u>	<u>Length (meters)</u>	<u>Wingspan (meters)</u>	<u>Total ordered</u>	<u>Total delivered</u>
A330-200	1998	253	12,000	59.0	60.3	120	52
A330-300	1994	335	10,200	63.7	60.3	144	79
A340-200	1993	239	14,800	59.4	60.3	28	28
A340-300	1992	295	13,500	63.7	60.3	196	143
A340-500	2002 ⁽²⁾	313	15,750	67.8	63.6	21	0
A340-600	2002 ⁽²⁾	380	13,900	75.3	63.6	42	0

(1) Three-class lay-out.

(2) Planned date.

Source: Airbus Industrie

The Extended-range Twin-Engine Operations or “ETOPS” regulations introduced in December 1988 have permitted twin-engine aircraft to operate on a number of direct routes that were previously reserved for three- or four-engine aircraft. ETOPS conditions require that twin-engine aircraft fly within a maximum range of 180 minutes from the nearest suitable alternate airport and the regulations apply predominantly to those routes flown by the A340 and its competitor, the Boeing 777 family. An extension of the time limit to 207 minutes has been granted to three U.S. carriers in relation to the Boeing 777-200 on certain routes. As it has four engines, the A340 (including the forthcoming 500 and 600 versions) is not restricted by ETOPS rules.

New Product Development: Airbus A3XX and A400M

A3XX

Since the development of the 747 in the 1960s, Boeing has had a monopoly on the high end (in excess of 400 seats) of the large aircraft sector. To counter this and to meet the expected growth in air travel over the next 20 years, Airbus has studied a program for a family of ultra-large four-engine aircraft, designated the “A3XX”, to establish its commercial, technical and industrial feasibility. Such a program would allow Airbus not only to compete head-to-head with the 747 but also to develop a new market for aircraft larger than the 747.

The A3XX family is planned to be larger than the largest existing commercial passenger aircraft, with a wingspan of 79.8m and a large-diameter fuselage divided into three decks along the entire aircraft, consisting of two full passenger decks and a cargo deck. The aircraft’s overall dimensions are expected to fit within the expressed airport guidelines of 80m span and 80m overall length limitation in order to use existing runways and facilities with minimal infrastructure changes. The A3XX is expected to be the first commercial aircraft featuring four aisles (two on each deck) and a double staircase. This aircraft is designed to achieve an airport turnaround time of 90 minutes in normal conditions. Several versions are currently proposed. The first version, designated the A3XX-100, would seat approximately 550 passengers in three classes and offer a long-haul range of 14,200 km to 16,200 km (7,650 nm to 8,750 nm), linking major hubs across the Atlantic and Pacific oceans, between Europe — or North America — and Asia, and within Asia. A second aircraft, the A3XX-200, would be a stretched 650-seat version. Other derivatives are being examined, including a smaller version A3XX-50, a freighter and a convertible passenger/freighter.

Although the A3XX would be an entirely new aircraft, Airbus intends to offer a high degree of operational commonality with the existing Airbus range, in particular in the cockpit, so as to reduce operating costs. Costs for the research and development of the A3XX would be in the range of Euro 11 billion to Euro 12 billion, on the basis of current market conditions and design specifications. Airbus intends to establish strategic risk-sharing partnerships with potential industrial partners, equipment suppliers and engine manufacturers in order to secure third party financing.

To fund A3XX development expenses, the Members are calling for repayable government loans in compliance with the 1992 U.S.-Europe bilateral agreement and all other applicable regulations. For a description of this agreement, see “— Market — Governmental Funding.” Although no such loans have been finalized, the French and British governments have responded positively to these requests.

The decision to proceed with the A3XX program is based on the satisfaction of three conditions — technical feasibility, economic viability and market demand. In December 1999, the Supervisory Board of Airbus Industrie determined that the technical feasibility and economic viability conditions could be met. Consequently, it authorized Airbus management to ascertain the commitment level of airlines to the A3XX in order to satisfy itself as to the number of potential orders, the geographic spread and nature of potential customers. Based on information and guidance received from the market, the commercial launch of the A3XX was announced on June 23, 2000, with entry into service of the first version expected before the end of 2005. See “Recent Developments and Outlook.”

A400M

The Military Transport Aircraft A400M is described under “Military Transport Aircraft — Airbus A400M Project — Heavy Military Transport.”

Asset Management (Airbus Industrie)

The Asset Management division was set up in 1994 to manage and re-market used aircraft acquired by Airbus Industrie, originally as a result of customer bankruptcies, and subsequently in the context of certain buy-back commitments. The division operates with a dedicated staff of about 40 people, and manages a fleet comprised of Airbus aircraft across the range of models. The Asset Management division, through its activities, helps Airbus Industrie respond more efficiently to the medium and long-term fleet requirements of its customers.

Its key roles comprise the commercial, financial and risk management of the Airbus Industrie portfolio, along with residual value enhancement of all Airbus products. Most of the aircraft are available to customers for cash sale, while some can only be offered on operating lease, depending on the financing attached to such aircraft. The Airbus Industrie portfolio of used aircraft was reduced from 60 at the end of 1999 down to 45, with recent sales to an aircraft lessor and to Federal Express. The Asset Management division also provides a full range of support services, including assistance with entry into service, interior reconfiguration and maintenance checks.

Customer Service

Airbus Industrie is dedicated to assisting customers with the purchase of Airbus aircraft and the operation of their Airbus fleets as efficiently as possible. A sales finance team assists customers to find optimized financing. With respect to aircraft operation, Airbus Industrie has set up the Airbus Customer Services directorate, which heads a network of training centers, spare parts stores and teams based with customer airlines. Through this single interface, Airbus Industrie aims to satisfy all of its customers’ pre-delivery and post-delivery support requirements, including (1) engineering and technical support, both pre-delivery and in-service, (2) training and flight operations support and (3) material support.

Engineering and technical support includes detailed pre-delivery briefings on maintenance facilities, tools and equipment, as well as a customized cost reduction program designed to reduce each customer’s maintenance costs to a minimum through detailed studies of the customer’s activities.

The training and flight operations support service includes a permanent staff of over 200 instructors from around the world to provide accessible and up-to-date training for Airbus flight crew. Airbus Industrie has two principal training centers, one in Toulouse, France, and the other in Miami, Florida. The Airbus Industrie support center in China also offers training services. As part of its training services, Airbus Industrie offers a pilot cross-crew qualification program enabling pilots to take advantage of the high degree of commonality between Airbus aircraft families.

Airbus Industrie’s material support division stocks over 130,000 proprietary part numbers, serving a worldwide distribution network in Hamburg, Germany, Washington, D.C., Singapore and China. The 24-hour aircraft-on-ground service usually dispatches in-stock items within four hours of receipt of an order. The division also offers a customized ongoing spares package designed to enable operators to achieve the greatest efficiency in maintenance checks, aging aircraft support and emergency orders.

Customers

As of March 31, 2000, 2,253 Airbus aircraft had been delivered to 171 operators worldwide since the creation of Airbus Industrie, and 1,436 aircraft were on order. The table below shows Airbus Industrie’s most significant recent firm orders and options, at March 31, 2000.

Recent Firm Orders and Options

<u>Date of Order</u>	<u>Customer</u>	<u>Firm Orders</u>	<u>Options⁽¹⁾</u>
January 1999/December 1999	GECAS	27	—
January 1999	ILFC	57	—
April 1999	CIT Group	30	16
April 1999	Jet Blue	25	25
June 1999	Spanair	14	12
June 1999	debis Air Finance	30	—
July 1999	Northwest Airlines	30	—
August 1999	U.S. Airways	26	—
September 1999	GATX-Flight lease	38	29
October 1999	America West	27	—
October 1999	SALE	21	18
October 1999	British Airways	12	—
December 1999	Trans World Airlines (TWA)	25	—
December 1999	Air France	15	10

(1) Options are not included in orders booked or year-end backlog.

Source: Airbus Industrie

Organization of Airbus Industrie

Activities and responsibilities of Airbus Industrie

Airbus activities can be conveniently separated into two categories: the activities carried out by Airbus Industrie itself, being principally commercial and coordination in nature, and the activities carried out by the Members, being principally operational in nature.

Airbus Industrie is primarily engaged in the following activities: marketing, aircraft sales, contract administration, customer finance, customer relations, asset management and support of Airbus aircraft (including the publication and distribution of technical manuals), flight testing and obtaining certification as well as the training of flight crews, procurement of aircraft engines and management of transport systems (between industrial sites). Airbus Industrie has also customarily retained direct responsibility for coordinating the development process (including the conceptual design of new products) and the supervision of design and development. As a result, Airbus Industrie is the single point of contact for purchasers of Airbus aircraft.

Almost all design, development, manufacturing, production and final assembly activities are carried out directly by the Members themselves and supplied to Airbus Industrie, although throughout the production process Airbus Industrie is responsible for coordination of planning and program management and for directing the rate, quality and timeliness of the production of components and sub-assemblies. Engines for Airbus aircraft are not manufactured by Airbus Industrie or by the Members but are provided by several approved engine manufacturers who work directly with Airbus Industrie. Customer requirements typically determine which of the certified engines will be integrated into an Airbus aircraft on the basis of direct negotiations between the customer and engine manufacturer.

Airbus Industrie also distributes revenues to the Members. The Members receive these revenues from Airbus Industrie in their capacity as suppliers to Airbus Industrie and as members of Airbus Industrie. As supplier, each Member sells products and services to Airbus Industrie and receives payment for such products and services when cash is received by Airbus Industrie from the customer. In its capacity as Member, each Member shares in the yearly profit or loss of Airbus Industrie.

Current Organization and Control of Airbus Industrie

Airbus Industrie is currently organized under French law as a *groupement d'intérêt économique* (i.e. an economic industry grouping), which is a form of consortium. As such, it is an independent corporate entity whose primary purpose is to increase the economic activities of its Members, each of whom remains jointly and severally liable with the other Members for the obligations of Airbus Industrie. The current Members of Airbus Industrie are Aerospatiale Matra (with a 37.9% interest), Dasa (37.9%), CASA (4.2%) and BAE SYSTEMS (20.0%).

Airbus Industrie is currently jointly controlled by the Members and governed by its Members' Assembly, its Supervisory Board and its Executive Board. The allocation of voting rights corresponds proportionally to the

Members' interests in Airbus Industrie and each of the Members has important rights relating to the determination of commercial policy. However, under the statutes and internal regulations, important decisions are to be reached unanimously and, if this fails, by a majority of 81% of the voting rights for certain decisions.

Effect on Airbus Industrie of EADS formation

Airbus Integrated Company

All functions relating to the Airbus aircraft programs are currently performed partly by the Members under contractual arrangements with Airbus Industrie and partly within Airbus Industrie itself. The EADS Members have decided to place those functions carried out by the EADS Members under the common control of an integrated company, Airbus Integrated Company, so as to rationalize resources and facilities within a single organization, to overcome the limitations and drawbacks of the present form of consensual agreement and to implement a unified strategy with respect to research and development, manufacturing processes and purchasing. EADS Management believes that such integration will enable Airbus Industrie to manage its cost base more effectively, improve customer service and reach decisions more rapidly. The decision of the Members to combine their Airbus-related activities under the Airbus Integrated Company, announced on June 23, 2000, is described further under "Recent Developments and Outlook."

Membership of Airbus Industrie after the formation of EADS

The formation of EADS will reduce the number of Members ultimately controlling Airbus Industrie from four to two: EADS, holding 80% of the membership interests, and BAE SYSTEMS, holding the remaining 20%. Since BAE SYSTEMS will continue inter alia to have veto rights relating to the business plan and the appointment of the senior management, it will continue to share in the control of Airbus Industrie. See "Recent Developments and Outlook."

Production

Workshare

Airbus aircraft are produced using an efficient and flexible system that has optimized the specialized skills of each Member developed during the last 30 years. Consequently, each task in the building of the Airbus aircraft (from design, definition and production to product or operational support) is allocated on an agreed basis among the Members according to their specialized expertise. Under this arrangement, each Member takes full responsibility for all aspects of those tasks assigned to it from the design stage through to the final stage of product and operational support. Management believes that this arrangement of allocating tasks according to the specialized competencies of the Members will continue after the formation of EADS.

Engineering

Engineering activities are allocated to the Members on the basis of their fields of expertise, so as to ensure the quality and efficiency of work on the design and the integration of the overall aircraft, as well as of aircraft systems and sections. Notwithstanding the agreed allocation, the search for engineering excellence is stimulated through various arrangements, such as design reviews (the design by the responsible Member being scrutinized and, if necessary, challenged by the others), or research in new technologies. This has ensured an efficient safeguard against complacency. The engineering teams are supported by system tests and integration laboratories, structural test centers and the Airbus flight test center.

Manufacturing facilities

In support of workshare and engineering arrangements, there has been substantial investment in the various manufacturing facilities located at sites around Europe (for example at Nantes, Meaulte, St. Nazaire and Toulouse in France; Hamburg, Bremen, Nordenham, Varel, Laupheim, Stade and Dresden in Germany; Getafe, Illescas, Puerto Real and Cadiz in Spain) with a view to creating highly specialized centers of excellence based on the core competencies of each Member within its field of expertise.

Production Flow

Specialization at engineering and production levels has ensured a production flow in which the relevant parts are supplied to the appropriate component and sub-assembly sites for the purpose of the systems integration and interiors installation. Sub-assembly takes place at a variety of sites located in the countries of each of the

Members, upon completion of which parts are then transported to either Toulouse (for the A300/A310, A330/A340 and A320) or Hamburg (for the A319/A321) for final assembly.

The completed subassemblies are flown to these sites using a fleet of four Airbus A300-AST “Beluga” Super Transporters which are a highly modified version of the Airbus A300-600R designed specifically for the Airbus production network. A fifth Beluga is currently in production. In addition to being cheaper than road, rail or sea alternatives, this method reduces transportation time and is designed to ensure that no major subassembly is out of the production cycle for more than 48 hours while also eliminating the risk of damage associated with ground shipment.

MILITARY TRANSPORT AIRCRAFT

Introduction and Overview

The Military Transport Aircraft Division (the "MTA Division") manufactures and sells light and medium military transport aircraft and is responsible for the A400M project regarding the development of a European heavy military transport aircraft. In addition, the MTA Division produces and sells special mission aircraft, which are derived from an existing platform and dedicated to a specialized military task such as maritime surveillance or antisubmarine warfare. The MTA Division is also involved in the aerostructures business, acting as supplier to aerospace manufacturers worldwide.

Revenues of the MTA Division accounted for 1% of EADS' total pro forma revenues for 1999. However, Management believes that the A400M project represents an opportunity for significant future revenue growth.

Strategy

The MTA Division's strategic aim is to develop its core businesses to exploit its technical expertise and the opportunities arising from the merger of Aerospatiale Matra, Dasa and CASA to maximize profitability and gain market share. To achieve this aim, the MTA Division will execute a focused, three-prong strategy to:

- ***Optimize its customer base and consolidate its leadership in tactical military transport aircraft.***

EADS is the global leader in the market segments for light and medium sized military transport aircraft. Through the addition of the A400M heavy transport, EADS expects to offer a full range of tactical military transport aircraft. The MTA Division intends to leverage its strong leadership position by ensuring that it can provide to its customers the type of tactical military transport aircraft most responsive to their needs.

- ***Optimize the capabilities of EADS to become a major supplier of special mission aircraft.***

The MTA Division will rely on the specialized technologies of the Defense and Civil Systems Division, the aircraft platforms of Airbus and the conversion expertise of the Aeronautics Division to produce aircraft satisfying customers' mission-specific requirements.

- ***Reinforce its recognized excellence in manufacturing with composite materials.***

The MTA Division possesses outstanding expertise in the utilization of composite materials for aerostructure manufacturing and advanced automation processes. Aircraft built with composite materials, such as carbon fiber, can carry greater payloads because the frame of the aircraft is lighter than with traditional materials. The MTA Division intends to maintain its competitive advantage in its aerostructures activities.

Market

Military Transport Aircraft

Governments and multinational organizations constitute the MTA Division's principal customers in the market for tactical military transport aircraft. This market consists of three segments: (1) light transport aircraft, with a payload of one to four tons, (2) medium transport aircraft with a payload of five to fourteen tons and (3) heavy transport aircraft with a payload of fifteen tons or more.

Light Military Transport. This is a mature market which has diminished in size as countries develop economically and are able to afford medium military transport aircraft. The CASA C-212 has been the historical leader in this market segment, with an average market share of 27.5% from 1994 to 1998. The C-212's main competitors are manufactured by PZL of Poland, LET of the Czech Republic and Raytheon of the U.S.

Medium Military Transport. Management believes this market will continue to experience moderate growth. EADS models are prominent in this market segment, with the CN-235 and C-295 models having an average market share from 1990 to 1999 of 45%, followed by their competitors the IPTN NC-235 (20%) and the C-27J produced by LMATTS, a joint venture of Alenia and Lockheed.

Heavy Military Transport. This market segment has historically been driven by U.S. policy and budget decisions and hence has been dominated by U.S. manufacturers, in particular Lockheed Martin's C-130 Hercules. While the U.S. is reducing its fleet size, Management believes that the European transport fleet needs replacement and growth, representing an opportunity for the new A400M aircraft.

EADS has chosen thus far not to compete in the separate market segment for super-heavy, strategic airlift aircraft.

Special Mission Aircraft

There are currently over 2,500 special mission aircraft in service in Europe and North America. Management estimates the potential demand at 1,100 aircraft over the next 10 years, or approximately Euro 25 billion. It is a high technology market in which added value plays an integral part and customers are increasingly demanding comprehensive solutions tailored to their operational requirements. European governments have identified a need for independent access to information in a theater of operations. This development is expected to boost demand for European-produced special mission aircraft in the near term. However, this market remains dominated by U.S. companies.

Products

Tactical Transport Aircraft

C-212 — Light Military Transport. The C-212 was conceived as a simple and reliable unpressurized aircraft able to operate from makeshift airstrips and carry out both civilian and military tasks. The first model in the series, the S-100, entered into service in 1974. With a payload of 2,950 kg, the new version of the C-212, the Series 400, entered into service in 1997. It incorporates improvements such as new avionics and engines for enhanced performance in hot climates and high altitudes, as well as improved short take-off and landing (STOL) performance. The C-212's rear cargo door provides direct access for vehicles, cargo and troops. Its configuration can be changed quickly and easily, reducing turnaround times. The aircraft can perform airdrops and other aerial delivery missions. As of March 31, 2000, 467 C-212s had been sold to 89 operators.

CN-235 — Medium Military Transport. The first model in the CN-235 family, the S-10, entered into service in 1987. The latest model in the CN-235 family, the Series 300, entered into service in 1998 and is a new-generation, twin turboprop, pressurized aircraft. The CN-235-300 is capable of transporting a payload of up to 6,000 kg, representing (1) 48 paratroopers, (2) 21 stretchers plus four medical attendants, (3) four of the most widely used type of freight pallet or (4) oversized loads such as aircraft engines or helicopter blades. Paratroop operations can be performed through the two lateral doors in the rear of the aircraft or over the rear ramp. Variants of the CN-235-300 are used for other missions, including maritime patrol, electronic warfare and photogrammetric (mapping) operations. As of March 31, 2000, 231 CN-235s had been sold to 32 operators.

C-295 — Medium Military Transport. Certified in 1999, the C-295 retains the basic configuration of the CN-235, but benefits from a stretched cabin permitting the aircraft to carry a 50% heavier payload at greater speed over similar distances. The C-295 is equipped with integrated avionics incorporating digital cockpit displays and flight management system (FMS), enabling tactical navigation, planning and the integration of signals from several sensors. Both the CN-235 and C-295 have been designed as complements to or replacements for the aging C-130 Hercules. Management believes that the CN-235 and C-295 can accomplish most of the C-130's missions at a lower operating cost, permitting the C-130 to be used for heavier cargo transport only, thereby extending its service life. As launch customer, the Spanish Air Force has contracted for the initial deliveries of the C-295.

Airbus A400M Project — Heavy Military Transport. The A400M is designed to meet the Future Large Aircraft ("FLA") requirements set out by seven European nations to replace their aging C-130 Hercules and C-160 Transall fleets. In addition, the new aircraft is intended to respond to changing geopolitical circumstances (including increased humanitarian, peacekeeping and military missions).

Project specifications stipulated that the FLA must feature (1) a large cargo hold capable of carrying large and heavy military equipment, (2) long-range capability, including in-flight refueling, (3) operational flexibility to cope with short and poorly-equipped airfields, steep landing approaches and low-altitude in-air cargo drops and (4) simple design and low maintenance costs. The Airbus Military Company ("AMC") submitted its proposed solution, designated the "A400M", for the FLA in January 1999.

AMC was established by eight partners: Airbus, CASA, Dasa, Aerospatiale Matra, BAE SYSTEMS, Alenia of Italy, TAI of Turkey and Flabel of Belgium. Shares in AMC were allocated so that direct and indirect (via Airbus) participation reflects the projected requirements expressed by each country, in accordance with rules outlined in a "statement of principle" signed by all partners. The three EADS members of AMC and BAE SYSTEMS transferred their interests in AMC to Airbus Industrie in April 2000, resulting in Airbus Industrie becoming the majority shareholder in AMC.

EADS has tasked the MTA Division with the overall management of the A400M program, because of its experience in the management of military transport aircraft programs and extensive client network. As a result of its extensive industrial base and the potential synergies from product commonalities, Airbus will be responsible for the industrial realization and manufacture of the A400M. The A400M will integrate a number of features from

existing Airbus aircraft, including a two-person cockpit, fly-by-wire controls and advanced avionics. Additionally, the A400M would benefit from Airbus' maintenance procedures and worldwide customer support network.

European requirements expressed to AMC for the FLA range from 200 to 300 aircraft to be delivered between 2006 and 2016, with each country guaranteeing a firm commitment prior to development and production. Management believes that a successful FLA bid will provide EADS with a number of specific advantages, including (1) a euro-denominated revenue stream enabling EADS to reduce its exposure to exchange rate risks, (2) a long-term military contract insulated from the cyclical nature of the civil aircraft market and (3) the opportunity to develop expertise and technologies for new materials and processes.

Special Mission Aircraft

Special mission aircraft are often derived from existing platforms and adapted to particular missions, in general for military customers. Adaptations to the platform require thorough knowledge of the basic airframe, which generally only the aircraft manufacturer possesses. The skills necessary for overall systems integration production of such aircraft are extensive and the number of participants on the world market is largely limited to a few major U.S. companies.

Because of the significant cost associated with developing a special mission aircraft and the limited size of any single European market, these programs tend to be funded and developed in Europe on a multinational basis with a view to selling proven technologies. EADS expects that the consolidation of Aerospatiale Matra, Dasa and CASA will strengthen its position in Europe and allow it to exploit opportunities on a worldwide basis.

Strategic Tanker Aircraft

In the medium term, EADS will seek to provide a competitive alternative to the near-monopoly currently enjoyed by Boeing products in the market for strategic tanker aircraft and which will help to ensure Europe's ability to independently set up projects. Management believes that the market for strategic tanker aircraft amounts to more than 70 aircraft over the next 15 years.

EADS is in the process of bidding for contracts to supply a Multi-Role Tactical Transport aircraft (MRTT) to the UK, Germany and Italy. This aircraft could be used as a cargo transport and as a tanker and would involve the modification of new or used Airbus A310 or A330 airframes.

Tactical Tanker Aircraft

Management believes that various European air forces will also require tactical tanker aircraft, a need that EADS can meet through an A400M tanker variant.

Customized and Converted Platforms

In this category EADS is able to offer logistics transport aircraft such as Airbus cargo variants, aircraft offering protection to government executives such as the A340 VIP and upgrades of combat aircraft to meet new mission requirements.

Airborne Ground Surveillance (AGS)

Within the framework of NATO, France, Germany, Italy and the Netherlands have expressed interest in the development of an AGS System. The MTA Division could provide candidate solutions based on the Airbus A321 platform, integrating systems provided by the Defense and Civil Systems Division.

Maritime Surveillance Aircraft

The MTA Division can provide different solutions for maritime surveillance aircraft based on a C-212, CN-235, Atlantic or P-3 Orion platform, for which EADS has already developed a new-generation, open architecture mission system.

Airborne Early Warning and Sky Surveillance (AEW)

EADS is currently studying the commercial feasibility of developing an AEW aircraft with advanced active module radar. This project would allow EADS to provide a new generation of high-performance AEWs which are more cost-effective to operate than the current generation. EADS expects that such AEW systems could be offered in the future on several different platforms.

Production

The C-212, CN-235 and the C-295 are manufactured in the factory located within the San Pablo Airport in Seville. In addition, the seven partners participating in the A400M program have agreed that final assembly of the A400M would also take place at the San Pablo Airport facility.

AERONAUTICS

Introduction and Overview

The Aeronautics Division conducts all aeronautics activities outside of the Airbus and Military Transport Aircraft Divisions. For 1999, the Aeronautics Division earned pro forma revenues of Euro 4.3 billion representing 18.2% of EADS' total pro forma revenues.

Through Eurocopter, EADS is the world's leading producer of helicopters for the civil market and the leader in the European military helicopter market. Management expects Eurocopter sales in the European military market to increase substantially due to demand for the Tiger attack helicopter and the NH90 military transport helicopter developed for a number of European governments.

As one of the primary developers of the Eurofighter, EADS is well positioned to become one of the leading manufacturers for this type of military combat aircraft.

In addition to Eurocopter and Eurofighter, the Aeronautics Division has significant businesses in the areas of regional aircraft (ATR), light aircraft (Socata) and aircraft conversion and maintenance (Sogerma and EFW).

In many of the Aeronautics Division's businesses, the companies forming EADS have worked together as partners for many years. In the Eurocopter joint venture that they have been operating since 1992 Aerospatiale Matra and Dasa have integrated their helicopter divisions. Though most integration opportunities have already been successfully achieved, the establishment of Eurocopter as a subdivision of EADS, rather than a joint-venture with two shareholders, presents further possibilities for streamlining and unifying Eurocopter's management. Similarly, these possibilities arise from the consolidation of Dasa's and CASA's interests in the consortium that has, over the past decade, developed the Eurofighter combat aircraft.

Management also expects synergies from the integration of Aerospatiale Matra's and Dasa's operations for converting Airbus passenger aircraft into freighters, which conversion business was jointly developed by these EADS founders. In addition, the aerostructures expertise that has been developed in these operations may be combined with the aerostructures activities of (1) Eurocopter, which produces doors for the Airbus Division, (2) the military aircraft subdivision, which manufactures tail fuselages for the Airbus Division and (3) the light aircraft subdivision, which supplies the Airbus Division with belly fairings and other major components.

Strategy

The strategy of the Aeronautics Division includes the following goals:

- ***Further penetrate the market for military helicopters and maintain leadership in the market for civil helicopters.***

The Aeronautics Division will further expand into the military export market by marketing the Tiger and NH90 helicopters. It will continue to renew its full product line of modern civil helicopters and improve its civil helicopter operations, in particular through its successful strategy of exploiting research, production and other synergies between its civil and military helicopter activities. Because customer services are an important source of revenues and a key buyer value, the Aeronautics Division will continue to strengthen its worldwide network of marketing, distribution and customer support systems, which cover the more than 8,300 Eurocopter aircraft in operation.

- ***Develop and capitalize on demand for Eurofighters in the export market.***

EADS owns a 46% interest in the consortium that has developed the Eurofighter multi-role combat aircraft. The other members of the consortium are Alenia, with a 21% interest, and BAE SYSTEMS, with a 33% interest. The consortium has received commitments to purchase 620 aircraft from its members' home countries and delivery of the first 148 aircraft is scheduled to begin in 2002. The strategy of the Aeronautics Division is (1) in the near term, to achieve a high level of efficiency and quality in the production of Eurofighters and (2) in the medium term, to capture at least 50% of the potential export market for this type of aircraft, which has an estimated size of more than Euro 50 billion over the next 30 years.

- ***Establish a military aircraft joint venture with Finmeccanica.***

The Aeronautics Division will pursue its plans with Finmeccanica to create a joint venture combining most of EADS' military aircraft activities with the military aircraft activities of the Alenia subsidiary of Finmeccanica, including Eurofighter and the military trainer aircraft activities of the Aermacchi company in which Finmeccanica owns a 25.45% interest. With German, French, Spanish and Italian participation, the scale and scope of

the joint venture would make it a compelling proponent of, and partner in, any future European or European-U.S. projects to develop a next generation fighter or advanced trainer aircraft.

- ***Ally with Embraer.***

Building on EADS' stake in Embraer, the objective is to forge a strategic alliance which would enable both companies to compete more effectively against Bombardier, the major competition in the regional aircraft market. This alliance, which is under discussion, would enable the parties to leverage the diversity and breadth of their complementary customer bases and rationalize their customer support networks. By combining ATR's turboprops and Embraer's jets in joint marketing initiatives, the alliance would be able to offer customers a greater range of solutions.

- ***Provide Airbus customers with a comprehensive conversion and maintenance service for the entire Airbus aircraft range.***

Exploiting EADS' exceptional knowledge of Airbus aircraft and relationships with Airbus customers, the Aeronautics Division will continue to expand its Airbus conversion and maintenance business.

EUROCOPTER

Overview

Eurocopter was created in 1992 by the merger of the helicopter divisions of Aerospatiale and Dasa. Both already had a long history in the field of design, development and production of helicopters and were already cooperating in the framework of the European programs for the Tiger and NH90 military helicopters. In 1996, Eurocopter became the world's largest manufacturer of helicopters in terms of total sales, a position it has continued to hold since then. In 1999, Eurocopter's global market share for civil helicopters was approximately 49%.

Market

In 1999, the market for new helicopters amounted to approximately Euro 8.7 billion. Military spending for helicopters is considerably greater than revenues from sales in the civil sector, but in terms of volume, production of military aircraft is roughly equal in numbers of airframes purchased. In particular, spending on military helicopters is relatively high, because they are usually larger and their systems are generally more sophisticated than commercial helicopters. Market data indicates that in 1999, volume stood at 467 civil aircraft and 494 military aircraft.

Military demand for new helicopters is principally driven by budgetary considerations, the need to replace aging fleets and strategic considerations. Management believes that the advanced age of current fleets, the emergence of a new generation of helicopters equipped with integrated technology systems and the ongoing introduction of combat helicopters into many national armed forces will contribute to increased military helicopter procurement over the next several years. Demand from the military segment has historically been subject to large year-to-year variations, due to evolving strategic considerations. Management expects European military procurements to increase significantly in the next five years.

The helicopters sold in the civil sector provide transport for corporate executives, offshore oil drillers, diverse commercial applications and state agencies, including police, medical and fire-fighting services. Management believes that global civil deliveries will remain relatively stable in the next five years.

The military segment is highly competitive and, for reasons of national security, politics and long-standing relationships, is characterized by competitive restrictions on foreign manufacturers' access to the domestic defense bidding process. In certain national defense markets, these restrictions work to the advantage of domestic manufacturers to the virtual exclusion of imports. As a result, Eurocopter's share of the global market for military helicopters has in the past been relatively small, a situation Management believes will improve, particularly in Europe, with the introduction of the Tiger and NH90.

In the military segment, Eurocopter's principal competitors are the five major helicopter manufacturers operating worldwide, including two in Europe (Agusta, a subsidiary of Finmeccanica, and Westland) and three in the United States (Bell Helicopter, Boeing and Sikorsky). Additionally, there are a number of domestic manufacturers in countries such as the successor states to the USSR that compete in their respective national markets.



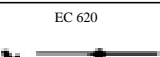
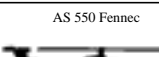








Eurocopter's principal civil competitor globally is Bell Helicopter, a division of Textron Inc. of the United States. The civil helicopter segment is relatively concentrated, with Eurocopter and Bell Helicopter together accounting for approximately 80% of total civil helicopter sales worldwide in 1999.

Products and Services

Existing Products

Management believes that Eurocopter currently offers the most complete and modern helicopter product range, covering more than 85% of the overall civil and military market spectrum. The Eurocopter product range comprises (1) light, single-engine helicopters such as the EC120 Colibri and the Ecureuil and light twin-engine helicopters, such as the EC135 and EC145, (2) medium helicopters, such as the Dauphin, and (3) medium-heavy helicopters, such as the Super Puma. Eurocopter's product line is based on a series of new-generation platforms that are designed to be adaptable to both military and civil applications, as indicated in the following table.

EUROCOPTER

Single				
	Civil EC 120	AS 350 Ecureuil		
Light				
	Military EC 620	AS 550 Fenec		
Twin Engine				
	Civil AS 355 Ecureuil	BO 105	EC 135	BK 117/EC 145
	Military AS 555 Fenec	BO 105	EC 635	
Medium				
	Civil AS 365 Dauphin	EC 155		
	Military AS 565 Panther			
Medium Heavy				
	Civil Super Puma MK1	Super Puma MK2		
	Military Cougar MK1	Cougar MK2		

Products in Development

Eurocopter and its predecessors have been credited with a number of technological “firsts”: the first turbine helicopter in 1955, the introduction of composite materials starting in 1968, the invention of the shrouded tail rotor (“fenestron”) that same year and the introduction of fly-by-wire systems in 1997. Eurocopter's product development strategy focuses on the continuing improvement and extension of its existing range of helicopters through internally funded research and development and through externally funded development of new military helicopters, such as the Tiger and NH90. Eurocopter is also researching other advanced technologies, including tilt rotor technology, which enables an aircraft to fly like a propeller-driven, fixed-wing aircraft but take off and land vertically like a helicopter.

Development activities contributed Euro 270 million to Eurocopter's consolidated sales in 1999, which represent 15% of Eurocopter's total sales contribution to the revenues of EADS. These sales were derived principally from the Tiger and NH90 development programs.

Military Segment

Current product development projects include (1) the NH90, a military transport helicopter with different versions for tactical, naval and combat-search and rescue applications, (2) the Tiger attack helicopter and (3) the EC635, the military version of the light, twin-engine EC135. Management believes that, in addition to equipping the armed forces of the countries involved in these projects, the NH90 and the Tiger will enable Eurocopter to compete even more effectively in the two most important segments of the military helicopter market, the attack and transport helicopter segments.

The NH90. The NH90 is being developed as a multi-role helicopter for both army and navy applications. The project, principally financed by the governments of France, Germany, Italy and the Netherlands, is being jointly developed by Eurocopter, Agusta of Italy and Fokker Services of the Netherlands under the aegis of Nato Helicopter Industries (NHI), which is owned by each of the four sponsor countries in direct proportion to their expressed procurement commitments. Confirmed requirements for the NH90 are for 595 helicopters, with the production of the first series of 244 aircraft slated to start in 2000 and deliveries to commence in 2004.

Management believes that the NH90 platform has significant export potential as a military platform that may also have civil applications in the future.

The Tiger. In 1987, the French and German governments launched the Tiger combat attack helicopter program. There are two variants under development based on the same airframe, an antitank variant and a support and protection variant. Initially, the antitank variants are to be built for both the French and German armies, while only the French army has expressed requirements for the support and protection variant. In June 1999, Eurocopter received an initial order for 160 aircraft, 80 from Germany and 80 from France, while total requirements of 215 aircraft for France and 212 for Germany were confirmed. Deliveries pursuant to the initial order are scheduled to commence in 2002.

The EC635. Following the receipt of an order for the military version of the light twin-engine EC135, development work recently commenced on a platform designated as the EC635.

Civil Segment

In recent years Eurocopter has invested in the renewal of its civil product line, enhancing its competitive position in the civil segment so that it currently stands at an almost 50% world market share. Eurocopter has successfully introduced such newly developed products as the light, single-engine EC120 and the light, twin-engine EC135, and such major product upgrades such as the EC155, the latest evolution of the medium class Dauphin, into the international markets. Development work is currently being carried out on the EC130 and EC145 light helicopters, derivatives of the Ecureuil and BK117, respectively. Eurocopter's strategy with respect to these development activities is to provide customers with highly efficient and technically advanced products, while optimizing Eurocopter's manufacturing efficiency through design, cost and standardization initiatives.

Customer Support

A helicopter's service life ranges from 25 to 30 years depending on the model and usage patterns. Military and civil purchasers typically expect to receive customer support in the form of pilot and support personnel training, replacement parts, maintenance, repair and other after-sales services for their fleets.

Demand for customer support depends chiefly on the size and age of helicopter fleets, as well as the capacity of individual operators to handle routine maintenance and repair work internally. Smaller civil operators generally subcontract a larger portion of their maintenance work. Military customers generally strive for self-sufficiency in maintenance, but continue to rely on the original manufacturer for extensive parts inventories and helicopter upgrades.

As of December 31, 1999, Eurocopter products constituted the world's second largest manufacturer fleet, with more than 8,300 helicopters in service worldwide. As a result of the large Eurocopter product fleet in operation, customer support activities represented 37% of Eurocopter's contribution to EADS' pro forma revenues for 1999. Eurocopter's customer support activities consist principally of training, maintenance, repairs and spare part supply for the in-service Eurocopter fleet, as well as some upgrading and modernization services for the German fleet of non-Eurocopter products. In order to provide efficient worldwide service to fleet operators of all sizes, Eurocopter has established an international service network of subsidiaries, authorized distributors and service centers. To extend the range of services offered to its customers, Eurocopter decided in 1999 to establish a helicopter training center together with Thomson Training Simulation to open in 2001.

Customers and Marketing

Over the past five years, approximately 95% of Eurocopter's helicopter deliveries and 60% of Eurocopter revenues have been generated by export markets outside France and Germany. However, Management expects that these ratios will decrease in the coming years as a result of the order received in 1999 from France and Germany for 160 Tiger attack helicopters. Management believes that the confirmed requirements for the NH90 multirole helicopter may lead to an initial order of 244 platforms in 2000.

Eurocopter's principal military clients have been the governments of European countries, followed by clients in Asia and the Middle East. Eurocopter's penetration of the civil and para-public market is globally well distributed: in 1999, Eurocopter's market share in this segment stood at approximately 64% in Europe, 39% in Asia and 48% in the U.S. and Canada. Eurocopter's penetration of the civil and para-public market in the U.S. and Canada places it first among manufacturers, including Bell Helicopter.

Eurocopter's global strategy is reflected in its development of a large international network, currently comprising 13 foreign subsidiaries (in the U.S., Canada, Brazil, Singapore, Japan and Australia, among others) which market,

customize and service Eurocopter products. This is complemented by a worldwide network of authorized distributors and service centers designed to service the largest number of potential clients.

Management believes that, by encouraging international industrial cooperation, Eurocopter better positions itself to increase its export market penetration. Accordingly, Eurocopter has developed expertise in production licensing, joint production and subcontracting agreements and has been developing links with industrial partners and suppliers in more than 35 different countries.

Eurocopter helicopters are currently operated by approximately 1,800 operators in 133 countries, forming a broad established client base for Eurocopter's customer support activities. A measure of the wide distribution of Eurocopter products is that, in 1999, less than 5% of Eurocopter's customers operated fleets of over 100 helicopters, and 84% operated fleets of between 1 and 5 helicopters.

The versatility and reliability of Eurocopter products have made them the preferred choice in terms of specific requirements by operator or mission. The U.S. Coast Guard operates 95 Dolphin (Dauphin) helicopters and the world's largest offshore operators (Norwegian Helicopter Services and PHI) use Eurocopter helicopters for passenger transport and offshore oil industry support. In the Emergency Medical Service market segment, Eurocopter helicopters dominate the fleets of large operators such as Rocky Mountain Helicopter in the U.S. and ADAC in Germany. Many government agencies around the world with high serviceability requirements, including police and armed forces, rely on Eurocopter products.

Production

Eurocopter's manufacturing development activities are carried out primarily in four locations, two in France and two in Germany. The French sites are located at Marignane, in southern France, and La Courneuve, near Paris. The German sites are located at Donauwörth and Ottobrunn, near Munich.

The Marignane facility houses the development, production and assembly lines for the Ecureuil, Dauphin, Super Puma and EC120 models, and is, along with the Ottobrunn facility, the co-development site for the Tiger and NH90 programs. The La Courneuve facility specializes in rotor blade technology and manufacture, while the Donauwörth facility specializes in aerostructure manufacturing and assembly lines for the BO105, BK117 and EC135 models. The Ottobrunn facility is a dedicated research and development site.

Cost Control

In 1999, Eurocopter instituted an initiative under which various changes and improvements are to be undertaken to enhance business unit efficiency. Eurocopter's program drive for greater efficiency is to continue through 2001, with the aim of increasing margins through greater productivity of industrial processes and support activities and improving customer satisfaction.

MILITARY AIRCRAFT — EUROFIGHTER

Overview

The Eurofighter 2000 (known as "Eurofighter" and also as "Typhoon" for export outside Europe) is a high-performance multi-role combat aircraft optimized for air superiority in complex air combat scenarios, with beyond visual range missile capability and close-in combat agility. It is fully compatible with state-of-the-art NATO weapon systems. Launched in October 1988, this program entered the production phase in January 1998 pursuant to an "umbrella contract" which provides for the procurement of 620 aircraft by Germany, Italy, Spain and the United Kingdom. Greece, another NATO participant, has also committed itself to purchasing the Eurofighter.

Thanks to the sophisticated technology used in the Eurofighter project, the partners in the program have gained valuable technical expertise, both in terms of an expanded dataset on new aircraft construction and a more skilled body of engineers, designers and manufacturing personnel. This has led to the migration of new technologies to civil applications, airframes and avionics. The robustness of combat aircraft components transfers well into the civil domain, leading to enhanced reliability through advanced construction techniques and design.

Market

Global production of fighters is spread among the two major U.S. suppliers, the smaller European competitors, and Russian producers.

Following the wave of industry consolidation in the United States, the two remaining prime contractors of fighter platforms are Boeing (incorporating McDonnell Douglas), maker of the F/A-18 and F-15, and Lockheed Martin,

producer of the F-16 series. The new F-22 will be manufactured by the two companies jointly, with Lockheed Martin as prime contractor. In this sector, Northrop Grumman remains active only as the principal subcontractor (approximately 40%) on the F/A-18E/F.

In Europe, fighter production is spread among three manufacturers: (1) Dassault Aviation, maker of the Rafale and Mirage 2000; (2) Saab — with partner BAE SYSTEMS — producing the Gripen; and (3) the four-nation Eurofighter consortium, composed of BAE SYSTEMS, Dasa, Alenia and CASA.

In Russia, the two suppliers of fighter aircraft are (1) Sukhoi, producing the Su-27 and numerous derivatives numbered up to Su-35, on the one hand, and (2) VPK MAPO, formerly the Mikoyan Design Bureau, which manufactures the MiG-29 and its derivatives such as the MiG-29SMT.

The combat aircraft platforms presently in contention for fighter procurement by the majority of the world's Ministries of Defense are as follows:

<u>Manufacturer</u>	<u>Aircraft Type</u>	<u>Date of First Delivery</u>
Boeing (McDonnell Douglas).....	F-15 (<i>Eagle</i>)	1973
Lockheed Martin.....	F-16	1976
Boeing (McDonnell Douglas).....	F/A-18 (<i>Hornet</i>)	1980
Dassault Aviation	Mirage 2000	1983
VPK/MAPO.....	MiG-29	1983
Sukhoi.....	Su-27 Series	1986
Saab.....	Gripen	1993
Boeing.....	F/A-18 (<i>Super Hornet</i>)	1998
Dassault Aviation	Rafale	1999
Mitsubishi/Lockheed Martin	F-2	2000 ⁽¹⁾
Boeing/Lockheed Martin.....	F-22 (<i>Raptor</i>)	2001 ⁽¹⁾
Eurofighter consortium.....	Eurofighter (<i>Typhoon</i>)	2002 ⁽¹⁾

(1) Planned delivery date

In addition to the above, two consortia, one led by Lockheed Martin and the other by Boeing, are bidding to develop the Joint Strike Fighter (“JSF”) for the U.S. Department of Defense. Ultimately, the JSF may be developed jointly, rather than on a “winner takes all” approach.

According to the Teal Group, “fly away” prices for the fighters indicated above range, according to model and specification, from U.S.\$30-100 million, of which the major constituent parts of a fighter platform — the airframe, the engine and the aircraft systems and equipment — each typically representing approximately one-third of the total per unit cost.

Program Structure

Eurofighter Jagdflugzeug GmbH (“Eurofighter GmbH”) is the program management company for the Eurofighter program. The company’s shares are currently held by BAE SYSTEMS and Dasa (each 33%), Alenia (21%) and CASA (13%). Taken together, the Dasa and CASA participations in EADS make it the largest single shareholder in the Eurofighter program.

The respective production workshares of the participating partners within the Eurofighter consortium stand at 37.5% for BAE SYSTEMS, 30% for Dasa, 19.5% for Alenia and 13% for CASA, reflecting the relative number of aircraft ordered. Dasa is responsible for the center fuselage, the flight control systems and final assembly of the 180 aircraft destined for the German military. CASA is responsible for manufacture of the right wing and leading edge slats, as well as final assembly for the 87 aircraft ordered by the Spanish armed forces. Eurofighter is a single source program, without redundancies in design or production responsibilities (with the exception of final assembly where the economic factor is marginal), leading to an efficient program cost structure. Set out below is the relative work-share responsibility of each of the four participants within the Eurofighter consortium:

Manufacturer	Aircraft procurement by National MoD⁽¹⁾	Series Production Workshare	Production responsibility
BAE SYSTEMS.....	232	37.5%	Forward fuselage; foreplanes; canopy; dorsal spine; vertical stabilizer; inboard flaperons; stage 1 of aft fuselage; final assembly of all UK aircraft.
Dasa.....	180	30.0%	Center fuselage; flight control systems; final assembly of all German aircraft.
Alenia.....	121	19.5%	Left wing; outboard flaperons; completion of aft fuselage; final assembly of all Italian aircraft.
CASA.....	87	13.0%	Right wing; leading edge slats; final assembly of all Spanish aircraft.

(1) In accordance with the umbrella contract described below.

Customers and Markets

The Eurofighter consortium is seeking to target and capture up to 50% of the total export market estimated at 800 aircraft over the next 30 years and worth in excess of Euro 50 billion. In March 2000, Greece determined to purchase 60 aircraft with an option on a further 30, valued at approximately Euro 6 billion (excluding the option aircraft) with deliveries commencing in 2005. In addition, in early 2000 the Norwegian government was considering both the Eurofighter and the Lockheed-Martin F-16 for a purchase of 20 aircraft (with options for a further ten). In response to a government proposal, the Norwegian parliament recently agreed to cancel this procurement initiative and replace the existing fleet of F-16 aircraft beginning in 2012.

Ministry of Defense fighter procurement considerations are governed on the one hand by requirements (defined in turn by a need for air defense and/or strike capability to counter threats posed by various potential enemy forces), and on the other hand by political and spending constraints, especially in the post-Cold War era.

Specific factors that may shape the answer to the question “how many and which platform?” include (1) primary envisaged role (and a preference for multi-role fighters), (2) nature and frequency of expected missions, (3) interoperability considerations vis-à-vis the national fleet and those of allies, (4) security of supply considerations for parts and (5) maintenance costs — which tend to be lower for newly-developed as opposed to mature platforms. Once a given fleet order has been fulfilled, pilot training, parts and maintenance and interoperability considerations speak in favor of further orders of the same platform (possibly in upgraded versions) in the future.

Production

Eurofighter’s development phase is coming to an end: in September 1998, the fixed price contract for the first tranche of 148 aircraft for delivery between 2002 and 2005 was signed, including 44 destined for Germany and 20 for Spain. Delivery of the first series of production aircraft will commence in the second half of 2001. Production is expected to continue until 2015.

In January 1998, the NATO Eurofighter and Tornado Management Agency (“NETMA”) signed the umbrella Eurofighter contract for 620 aircraft: United Kingdom, 232 (with 65 options); Germany, 180; Italy, 121 (with nine options) and Spain, 87 (with 16 options). The umbrella contract, while fixing a maximum price for the overall program, also stipulates that production agreements are to be awarded in three tranches, each with progressively lower fixed prices than the one preceding it. NETMA is an official NATO agency that contracts directly with Eurofighter GmbH.

The Eurofighter is designed to enhance fleet efficiency through a single platform tasked with supersonic beyond visual range combat, subsonic close combat, air interdiction, close air support, air defense suppression and maritime attack roles. The tactical requirements of the aircraft have been contractually defined and accepted by the

United Kingdom, Germany, Italy and Spain, and include all-weather capability, short take-off and landing capability, high survival capability and operational rates, as well as independence from external ground equipment (autonomy). The Eurofighter is state-of-the-art and management believes that this airframe will be suitable for long-term development and improvement as avionics and weapons systems evolve, providing for an extended service life potential.

Technology Development

EADS and Boeing are currently under contract from, respectively, the German and U.S. governments for a new research program, named VECTOR, the aim of which will be to design innovative flight control systems with integrated thrust vectoring for improved performance and new configuration options, using jet deviation without vertical control services. Among the other goals of the VECTOR program is to demonstrate flights with a reduced tail unit and extremely short take-offs and landings. The knowledge gained from this program, which is slated to last until 2002, may be applied to existing vehicles and new configurations such as the Eurofighter and Mako.

MILITARY AVIATION — TRAINING AND LIGHT COMBAT AIRCRAFT

Overview

Management believes the aggregate potential market for training and light combat aircraft to be as high as 2,500 aircraft between 2005 and 2025. The competition in the training and light combat aircraft sector is fierce, with offerings from BAE SYSTEMS (Hawk), Alenia/Aermacchi/Embraer (AMX/ATA), AeroVodochody/Boeing (L-159 ALCA), KAI/Lockheed Martin (T-50) and others.

Products

Mako Program (LCA/AT)

Developed from preliminary studies that commenced in 1994, the Mako is being designed as a light combat/high performance trainer incorporating specific technologies developed within the framework of the Eurofighter program. Management believes that many of the current offerings of other manufacturers in this product sector are nearing the end of their operational lives, with few, if any, economically viable upgrades available. Accordingly, the Mako has been positioned to fill the product gap with a technologically advanced airframe with excellent growth potential at a relatively affordable price structure.

Initially, the aircraft will be available in two variants derived from the same basic design, airframe and propulsion system: a tandem cockpit trainer with a derated engine and limited avionics/weapons systems, and a single seat light combat fighter with advanced radar, ECM suite, and full digital avionics and advanced weapons systems. The stealthy design features composite materials construction and a radar cross section well under one square meter.

EADS is currently in discussions regarding the Mako with several countries, of which the discussions with the United Arab Emirates are the most advanced.

CASA C-101 Aviojet

The C-101 was designed by CASA as a training and ground attack jet aircraft. It features seating for two pilots, with the rear seat raised, providing excellent visibility from both positions. The aircraft is characterized by its low fuel consumption, reduced maintenance, excellent maneuverability and low noise and infrared emissions.

The C-101 has an integrated navigation and attack system built around a heads-up display and is equipped with air data and mission computers, together with an inertial platform and display and control unit which are integrated. Six hard points under the wing and a central station in the fuselage allow military loads of up to 4,000 lbs., providing the C-101 with a high tactical capability. 151 C-101s have been sold to the air forces of Chile, Honduras, Jordan and Spain.

Maritime Patrol Aircraft — MPA 2000

The MPA — Replacement program is designed to replace the Bréguet Atlantics of the German and Italian navies. This program has been postponed several times, which has meant retrofitting the existing Atlantic 1. Nevertheless, the age of these aircraft — over thirty years old — makes their replacement ever more urgent.

Germany has negotiated with Italy to set up a common program that could cover 24 aircraft (14 for Italy, 10 for Germany). The entire program, currently in the definition phase, has been valued at almost Euro 3.5 billion. Development is projected to begin in 2002, with delivery in Germany from 2007 and in Italy from 2008.

The creation of EADS could lead to the extension of the program to France, as the French Navy also wishes to modernize its Atlantique 2 planes, change their systems and replace their engines, depending on the decision of the respective ministries of defense.

REGIONAL AIRCRAFT — ATR

Overview

EADS is an equal partner in the ATR consortium with Alenia Aerospazio (“Alenia”), a division of Finmeccanica of Italy. ATR is a world leader in the market for regional turboprop aircraft of 40 to 70 seats.

Market

The market for commercial regional aircraft is determined by the requirements of regional airlines for aircraft to operate on routes of an average of 500 kilometers (225 nm) and/or an average travel time of approximately one hour. According to a study carried out by OAG (Official Airline Guide), the number of available seat kilometers in the regional market grew by an average of approximately 8% per year in North America and 10% in Europe between 1990 and 1999. Over the last few years, there has been an increasing demand for regional jet aircraft of less than 70 seats, particularly as regional airlines extend their coverage to longer routes. These airlines have historically relied on turboprop aircraft, which are less expensive to purchase and operate on such routes than jet aircraft, which EADS does not currently produce. Other advantages of turboprops are greater flexibility in terms of climate and runway conditions (including the ability to make use of shorter runways and unpaved surfaces), and low pollution levels.

The regional aircraft industry has experienced concentration in recent years. During the 1990's, a number of manufacturers merged, closed or ceased production of regional aircraft, leading to the withdrawal from the market of BAE Jetstream, Beechcraft, Fokker, Saab and Shorts. As of December 31, 1999, the worldwide market for turboprop aircraft of 40-70 seats in production was dominated by two manufacturers: ATR with 69% of the cumulative sales and Bombardier of Canada with 25%. The worldwide market for regional jets is divided principally between Bombardier, Embraer of Brazil and Fairchild Dornier. The market for jets is currently characterized by vigorous price competition and intergovernmental conflict over state aids for financing of aircraft sales. EADS is currently negotiating a cooperative sales, maintenance and asset management arrangement with Embraer, in which it has a minority shareholding; such an arrangement would be justified due to the high complementarity of ATR's and Embraer's products.

Products and Services

Commencing with the ATR 42, which entered service in 1985, ATR has developed a family of high-wing, twin turboprop aircraft in the 40-70 passenger market that are designed for optimal efficiency, operational flexibility and comfort. In 1996, in order to respond to operators' increasing demands for comfort and performance, ATR launched a new generation of aircraft designated the ATR 72-500 and ATR 42-500. In September 1999, these aircraft were ranked first and second, respectively, for investment value in an operators' and investors' poll conducted by the *Air Finance Journal*, ahead of jets. Like Airbus, the ATR range is based on the family concept which provides for savings in training, maintenance operations, spare parts supply and cross-crew qualification.

ATR 42-500

The ATR 42-500 forms the cornerstone of ATR's family of aircraft. With the widest cabin in its class, the ATR 42-500 provides increased passenger space, improved comfort and enhanced noise control for up to 50 passengers.

With cumulative orders for 359 ATR 42 series aircraft, the series was the best selling aircraft in its market segment (50-seat turboprops) in terms of total orders as of December 31, 1999.

ATR 72-500

The ATR 72 was developed by extending the ATR 42 fuselage to respond to operators' growing need for a larger capacity regional aircraft. The ATR 72-500 has a passenger capacity of up to 74 seats, with the same fuselage cross-section, cockpit and basic aircraft systems as the ATR 42 series. As of December 31, 1999, cumulative orders for ATR 72 series aircraft stood at 254.

Derivative Aircraft

The ATR family of aircraft includes a number of specialized cargo versions. A convertible passenger/freighter version exists in both the ATR 42 and ATR 72 sizes, with a cargo door at the front of the aircraft. ATR is currently considering development of a dedicated cargo variant with a large cargo door which can accommodate standard LD3 aircraft containers.

Customer Service

ATR has established a worldwide customer support organization committed to supporting the aircraft over its service life. Service centers and spare parts stocks are located at Toulouse, in the vicinity of Washington D.C. and in Singapore. The ATR “Aircraft on Ground” system works 24 hours a day to meet customer needs, and a spare parts management system links the three parts centers to ensure optimal global parts distribution. To reduce inventory costs, ATR has entered into product support agreements with each vendor to optimize availability of spare parts not stocked in the ATR “Aircraft on Ground” system.

ATR Asset Management

In line with industry practice, a significant portion of orders received by ATR is conditioned on its assistance in financing the purchase either through leasing or loan guarantee arrangements. In 1998, to manage the resulting risk and used-plane residual values and respond to the growing market for second-hand aircraft, ATR created the ATR Asset Management Division. By assisting in the placement and financing of used and end-of-lease aircraft, ATR Asset Management has helped broaden ATR’s customer base, notably in emerging markets, by providing quality reconditioned aircraft at attractive prices. In the past, clients for such used aircraft have subsequently purchased new aircraft as they have gained experience in the operation of ATR turboprops. Returned aircraft generally remain out of service for approximately five months awaiting reconditioning and resale or leasing, subject to market conditions.

Production

Facilities

EADS acts as architect-integrator of ATR aircraft and is responsible for the certification and airworthiness follow-up of ATR aircraft. The consortium seeks to utilize the specialized skills of both EADS and Alenia. Alenia’s manufacturing facilities near Naples, Italy, produce the aircraft fuselage and tail sections. Aircraft wings are assembled at EADS’ facilities at Saint-Nazaire, and engine housings (*nacelles*) are assembled at EADS’ Saint-Martin site near the airport of Toulouse. EADS carries out final assembly, flight-testing, certification and deliveries at the Toulouse site. EADS outsources certain areas of responsibility to the Airbus Division, including wing design and manufacture, flight testing and information technology.

Production System

ATR’s production system, which uses a two-stage final assembly line, is designed to maximize the ATR consortium’s ability to react swiftly and effectively to market changes. In the first stage, ATR produces semi-finished aircraft in standard configurations on a continuous basis, enabling it to adjust the first-stage output within certain parameters. When a firm order is placed, the semi-finished aircraft is transferred to a second production stage for final customization in accordance with the customer’s requirements. This flexible system enables ATR to reduce its working capital needs through “just in time” supplier arrangements.

Cost Control

Since 1996, Aerospatiale has focused on streamlining logistics and purchasing for the ATR program, and improving the terms and conditions on which it obtains engines and other equipment. This project, known as CAP (*Croissance et Adaptation par les Processus*), has significantly reduced Aerospatiale Matra ATR’s overall costs. EADS intends to continue to pursue these efforts vigorously in the future.

GENERAL AVIATION

Socata

Socata manufactures a range of light aircraft for the private civil aircraft market and also engages in aerostructures subcontracting, producing materials and subassemblies for EADS’ other aircraft operations, including Airbus.

In the general aviation field, Socata has developed over the past 20 years a range of piston engine aircraft, the TB family, and the monotorboprop pressurized TBM 700. These new-generation aircraft compete with products based on models that date back to the 1950s. Many aircraft in the general aviation market are nearing the end of their service life. As a result, Management believes that Socata will benefit from an increase in sales in the near term.

Since launching its aerostructures activity in the early 1960s, Socata has positioned itself as a first-line subcontractor for complete assemblies. These activities consist of (1) specialized subcontracting, including design, production, installation and integration, and (2) production subcontracting, which excludes design. Socata is experienced in the use of composite materials for aircraft structural elements, in particular for the Airbus A330/A340, as well as metal-composite combination technology and forming of large-dimension metal panels. In addition, Socata carries out design work for a number of European aviation programs, including Airbus, Eurocopter, Mirage and Falcon aircraft.

AIRCRAFT CONVERSION AND MAINTENANCE

EADS is a major provider of aircraft conversion and maintenance services for airlines and air forces.

EADS will seek to realize synergies in aircraft conversion and maintenance by combining the operations of (1) Aerospatiale Matra's subsidiary Sogerma, (2) Dasa's subsidiary Elbe Flugzeugwerke GmbH (EFW), (3) Dasa's military maintenance activities, and (4) CASA's maintenance division. Management believes that the concentration of expertise in a stable pool of highly-skilled workers will enable EADS' aircraft conversion and maintenance group to perform services on a wide range of aircraft, including all of the aircraft produced by EADS. In addition, the exchange of skilled workers in response to cyclical variations in the market could increasingly occur within the aircraft conversion and maintenance group, serving as the basis for further synergies. Moreover, EADS can use knowledge gained through maintaining Airbus aircraft to improve initial product quality and reduce maintenance costs.

In the field of commercial aircraft maintenance, knowledge exchange within EADS will be valuable in maintaining early-generation Airbus aircraft and also in exploiting the maintenance markets for newer aircraft such as the A320 or A330/A340. Management believes that integrated packages, designed to meet customers' full range of service requirements, will be particularly attractive to small airlines.

COMMERCIAL AIRCRAFT CONVERSION AND MAINTENANCE

Overview

Conversion

Commercial aircraft conversion, which involves converting an aircraft from its original configuration to enable it to perform different missions or to change its appearance, can be divided into two segments. One consists of converting passenger aircraft into freighter aircraft, which generally requires 30,000 to 40,000 working hours and requires highly-skilled workers to modify the aircraft structure as well as passenger related systems, such as air conditioning, heating and lighting. The other segment involves converting the interior configuration of passenger aircraft, which is performed when the operator decides to modify the layout and the appearance of the aircraft's cabin or when an aircraft is transferred from one operator to another. This type of conversion also includes VIP and business interior installations.

Maintenance

Aircraft maintenance depends on a system of inspections and maintenance services as described in maintenance manuals or maintenance planning documents, published by aircraft manufacturers. Inspections and routine overall services are carried out on a daily, weekly, monthly or annual basis. In addition, general inspections and wider maintenance services are performed every four to five years (the "C4" service) and every eight to ten years (the "C8" or "D" service). The C4 service generally involves 4,000 to 15,000 hours of labor, while the C8 or D service generally involves 6,000 to 35,000 hours of labor. The regularity of the maintenance calendars allows the service provider a high degree of client visibility.

In addition to the aircraft maintenance described above, aircraft components require inspection maintenance, overhaul and repair, which may only be performed by certified stations equipped with trained staff. The main components of an aircraft, namely its engines, landing gear and auxiliary power units ("APUs") require maintenance which can only be provided by certified stations equipped with trained staff, equipment and tooling. Engine maintenance represents 40%, landing gear 10% and APUs 6% of an operator's overall maintenance costs. Other aircraft components maintenance, including services for components such as avionics, electromechanical devices,

hydraulics, pneumatics, cabin equipment, and wheels and brakes, represent more than 20% of overall maintenance costs. These services are provided either directly or in conjunction with airframe checks.

Market

Conversion

The range of customers in the market for civil aircraft conversion include freight service airlines such as UPS or FedEx, airlines with small aircraft fleets and finance groups which lease aircraft rather than operating the aircraft themselves. Two considerations drive the aircraft operators' decision to convert existing passenger aircraft to freighters. First and primarily, conversion is the most efficient way to obtain a relatively modern freighter. Second, when the decision is made to replace a fleet, it is in the interest of both the operator and the aircraft manufacturer to maintain the residual value at a relatively high level. For the purposes of marketing, the proposal of a new aircraft to a customer can be combined with the conversion of an older model.

Market research has predicted a worldwide demand for up to 800 converted freight aircraft in the midsize payload segment over the next two decades, both to replace aging freighters and to satisfy growth in the cargo market, estimated at 5.9% per year in this period.

EADS' main competitor in the freighter conversion business is Boeing, which focuses its activities on the conversion of its own aircraft, the MD11, DC-10 and 747. As regards conversion of Airbus, the only competitor on the market today is BAE SYSTEMS Airbus for the A300B4 and possibly A300-600 models. To date, EADS has performed approximately twice as many Airbus freighter conversions as BAE SYSTEMS Airbus.

Maintenance

The market for commercial aircraft maintenance, which amounted to Euro 2.6 billion in 1999, is expected to attain Euro 3.0 billion in 2003. In this context, the accessible Airbus fleet market should grow.

Independent maintenance providers compete with large airlines in this business sector. Certain airlines, such as Air France and Lufthansa, possess their own maintenance facilities adapted to the size of their own fleet and are therefore able to limit the exposure of their maintenance activities to market cycles. Other carriers, in particular U.S. airlines, seek to limit their expenditure by outsourcing maintenance activities to independent maintenance providers such as Sogerma. Leasing companies are generally guided by financial rather than technical considerations, leading them to pursue a limited maintenance strategy. However, Management believes that these operators will increasingly be ordering high quality maintenance from independent maintenance providers.

In the field of components maintenance, Sogerma's main competitors are BF Goodrich in landing gears and United Technologies, Allied Signal and Triumph in APUs.

Products

The EADS aircraft conversion and maintenance group is a supplier of aircraft modifications, including aircraft conversions and upgrading and production of aerospace structures, and maintenance services for airlines and air forces.

Conversions and upgrading

In the field of conversions, EADS specializes in the conversion of Airbus A300 and A310 passenger aircraft to cargo usage. Management believes that its joint marketing of maintenance and conversion work has been beneficial, since EADS has been retained to perform maintenance for a large number of converted aircraft. EADS intends to build on this specialization to position itself in the growing market for cargo conversions of A300-600, A320 and A330 aircraft.

EADS has converted a total of 77 A300 and A310 aircraft into freighters. The conversion concept, which was jointly developed by Dasa and Aerospatiale Matra, was first performed on an A300 aircraft in 1982/1983. The conversion kits used comprise original parts, known as Original Equipment Manufacturer or "OEM" parts from the corresponding Airbus serial freighter versions, and result in a converted aircraft which is very similar to a freighter from the series production. Although the use of original parts may initially be more expensive than other aircraft conversion solutions, Management believes that this method of conversion ultimately produces higher quality aircraft than alternative conversion solutions.

EADS believes that the cabin upgrade market offers growth potential and therefore decided in 1998 to expand its operations in this field.

Maintenance

EADS offers a wide range of scheduled maintenance services. As the number and age of Airbus aircraft in fleets worldwide increases, Management believes that Sogerma's historically strong and competitive position in the Airbus maintenance market will enable it to maintain volume in a market generally suffering from overcapacity. EADS' Bordeaux and Toulouse facilities specialize in the aircraft body maintenance of all Airbus and ATR aircraft as well as the McDonnell Douglas MD80 and military aircraft. In aircraft systems, EADS covers a wide market including Airbus and ATR aircraft at its Bordeaux facility, as well as a number of helicopter and military aircraft models. EADS also services Boeing aircraft through its U.S. subsidiary Barfield.

EADS provides maintenance services for many types of components, including engines, auxiliary power units APUs, landing gear, electromechanical devices, hydraulics, and avionics, which include navigation, communications and computer systems.

EADS also provides logistical support services, making its extensive stock of spare parts available to aircraft operators. This activity enables EADS to position itself favorably in the market for related repair and maintenance work.

Production

EADS operates through six facilities in France and Germany as well as facilities in Miami, Florida and Casablanca, Morocco. Sogerma's Rochefort site in southwestern France specializes in manufacturing cabin equipment and Airbus structural elements, while the Rouen site in northwestern France specializes in APUs and landing gear maintenance for airliners. Sogerma's other sites carry out a variety of maintenance and conversion activities. EFW's facility in Dresden performs passenger to freighter conversions and supplies floor panels for Airbus models.

MILITARY AIRCRAFT CONVERSION

Overview

Management believes that the modernization of military aircraft provides an important business opportunity for sustained growth and profitability. As well as providing a profitable after-market service to existing customers, aircraft modernization operations provide access to new export markets for future sales of all types of aircraft, both military and commercial. The upgrading of military airframes is particularly attractive for countries with limited national defense budgets, such as those in the former "East Bloc", Latin America, North Africa and some Asian regions. For these nations the purchase of new multi-role aircraft is either politically or economically impractical, making upgrading the most cost-effective alternative.

Products and Services

EADS has established expertise in the field of military aircraft conversion and upgrades through programs for such aircraft as F-1 Mirage, F-4 Phantom, F-5, Tornado, MiG-29, E-3A Sentry, P-3 Orion, C-160 Transall, Breguet Atlantic 1 and C-130 Hercules. These capabilities will be of particular value in capturing new markets, such as further upgrades of central European air force aircraft and the future support contracts for the Eurofighter.

The complementary skills and experience of EADS partners in many military aircraft programs provides EADS with the chance to offer a broad spectrum of products to multinational customers and to expand its customer base and export possibilities.

SPACE

Introduction and Overview

EADS is the third largest space systems manufacturing company in the world after Boeing and Lockheed Martin and the leading European supplier of satellites, orbital infrastructure and launchers. For 1999, the pro forma revenues of the Space Division amounted to Euro 2.5 billion, or 10.7% of EADS' total pro forma revenues.

Largely through its subsidiaries Astrium and Aerospatiale Matra Lanceurs (AML), and its business unit, CASA space division, the EADS Space Division designs, develops and manufactures:

- satellites;
- orbital infrastructure; and
- launchers.

EADS also provides launch services, as well as services related to telecommunications and earth observation satellites, through its shareholdings in Arianespace and other service providers. Furthermore, EADS is active in the fields of optronics (e.g. earth and star sensors) and laser technologies through its subsidiaries SODERN and CILAS.

Astrium is the leading European company in the space industry, covering all major segments of the markets for satellites, orbital infrastructure and launcher components. It will generally act as prime contractor in its satellite business supplying (1) telecommunications satellites to leading telecommunications service providers, and (2) earth observation and science satellites to major national and international institutions, such as the European Space Agency (ESA). Consistent with the EADS strategy of driving consolidation in the aerospace industry, Aerospatiale Matra and Dasa fostered the foundation of Astrium, which was formed on April 28, 2000 by the contribution of the activities of Matra Marconi Space (MMS), equally owned by Aerospatiale Matra and BAE SYSTEMS, and the space activities of Dasa including Dornier (*i.e.*, Dornier Satellitensysteme GmbH (DSS) and Dasa and Dornier Raumfahrt-Infrastruktur (Dasa RI, Dornier RI)). EADS holds 66% of the capital of Astrium. BAE Systems holds 25% of the capital: the remaining 9% being indirectly held by minority shareholders of DADC and Dornier GmbH. Since EADS in turn holds the majority of DADC and Dornier GmbH, it may exercise 75% of the voting rights of Astrium. Pursuant to heads of agreement entered into in December 1998, Astrium's shareholders are currently evaluating the contribution of Alenia Spazio to Astrium. Alenia Spazio, a subsidiary of Finmeccanica, is mainly active in the fields of satellites and orbital infrastructure.

AML is active in the fields of commercial launchers and ballistic missiles. As the industrial architect for the Ariane family of launchers, it is responsible for the overall design of the launchers and the organization and supervision of the industrial teams. AML's central role in Ariane is reflected in its responsibility for some of the most complex and critical components in the Ariane system, such as stages of Ariane 4 and Ariane 5. In addition, AML is prime contractor for the development of the Automated Transfer Vehicle (ATV), the cargo vessel for the International Space Station (ISS), and supplies components for satellites and launchers. Furthermore, AML is the exclusive supplier of ballistic missile systems to the French State.

CASA Space Division is principally active in the field of engineering, production, assembly and testing of structures and equipment for satellites, launchers and other space vehicles.

Strategy

The Space Division is committed to a profitable growth strategy based upon its leading position in the commercial launcher and satellite businesses. It is dedicated to expanding its market share, capitalizing on key growth opportunities in a rapidly changing environment. The key elements of the Space Division's strategy are as follows:

- **Strengthen Ariane's leadership in the market for commercial launch services.**

As the main industrial shareholder and supplier of Arianespace, EADS will promote restructuring efforts in the European space transportation industry. For example, EADS will lead these efforts by streamlining its launcher manufacturing operations. In addition, EADS will take the initiative in building support among Arianespace's shareholders for a plan to optimize the product range of the Ariane launcher family.

- **Extend EADS' leadership in NATO/European military satellite programs.**

Because EADS' subsidiaries are long-established operators on their national markets (France, Germany, Spain and the United Kingdom), EADS has strong credibility and relationships with government customers in these countries. Exploiting this advantage and its experience as a manufacturer of the telecommuni-

cations satellites, EADS intends to generate business as a major contractor in forthcoming European and NATO programs, such as Skynet 5, Syracuse 3, and the NATO satellites. It also intends to seize market opportunities in the field of military reconnaissance systems, thanks to its existing range of successful commercial and military earth observation satellite systems (e.g. SPOT, HELIOS, ERS). Management believes that European military customers will show heightened awareness of the importance of space systems in the wake of the Kosovo conflict and will commit greater resources to space programs in the future.

- **Explore commercial applications of technologies developed for military uses.**

EADS has developed a wide range of cutting-edge technology and innovative solutions in its military programs. EADS intends to explore commercial applications of these military-based technologies in the civilian market. For example, Management believes that EADS' technical expertise in the area of military earth observation systems has the potential to "cross over" into the civil area and thus to be marketed commercially. Moreover, the benefits can flow both ways, as certain commercial technologies may be applied for military purposes.

- **Capitalize on long-standing focus on supplying geostationary satellites to commercial telecommunications providers.**

In the field of commercial telecommunications satellites, EADS will continue to pursue its successful strategy of concentrating on geostationary satellites. It expects to further improve its market position in geostationary satellites by introducing the EUROSTAR 3000 platform, one of the best-performing geostationary satellite platform families available. EADS has only minimal exposure in low earth orbiting constellation systems for telecommunications, a market which has recently experienced commercial difficulties. Nevertheless, it will explore possibilities in this market on a case-by-case basis.

- **Expand sales of services in the medium term.**

EADS is exploring new possibilities to offer value-added service solutions to its military, institutional and commercial customers, such as end-to-end service provision, operation services and financial engineering. EADS believes that its broad array of technological expertise and service know-how would constitute a competitive strength in any such activity.

SATELLITES

Overview

Satellite systems can be categorized into four segments: telecommunications, observation, science, and navigation. Telecommunications satellites have multiple applications, for example, long distance and mobile telephone links, television and radio broadcasting, data transmission, multimedia and Internet. They may be used for civil or military applications. Observation satellites allow the gathering of information in varied fields such as cartography, weather forecasting, climate monitoring, agricultural and forestry management, mineral, energy and water resource management and military surveillance applications. Scientific satellites are tailor-made products adapted to the specific requirements of the mission assigned to them. They have applications such as astronomical observation of the universe's sources of radiation, in-situ planetary exploration and earth sciences. Navigation satellite systems such as the Global Positioning System (GPS) deliver signals which enable users to determine their position.

Market

Management believes that the share of the world market for satellites open to EADS is about Euro 5 billion and that EADS holds approximately 25%. It is the largest European satellite manufacturer, and benefits from its position as a domestic provider in France, Germany, Spain and the United Kingdom with access to the respective national budgets.

Management expects the telecommunications satellite segment, in which it has a market share of approximately 10%, to experience future growth due to such factors as: (1) increased telecommunications demand, including Internet, multimedia and military needs, and (2) increasing demand for telecommunications services supported by the liberalization of the telecommunications market in emerging economies in Asia (recovering from the 1998 crisis), Latin America and Eastern Europe. EADS aims to increase significantly its market share in this growing segment.

In Europe, the market for observation and scientific satellites is essentially organized on a multilateral basis and in accordance with the fair return policy under which contracts are awarded to domestic suppliers in proportion to the respective contributions of the suppliers' country of residence.

For scientific and earth observation satellites, Management estimates that EADS' market share is about 52% in value or 46% in volume on the basis of launchings between 1994 and 1998. Apart from the European institutional market, EADS believes that there is an emerging export market for earth observation systems. Furthermore, increased demand is expected from civil state agencies, including ESA, for earth observation satellites in the framework of European environmental programs. EADS expects the market for scientific satellites to remain stable over the medium term.

In the market for military satellites, EADS expects increased demand for telecommunications satellites, and, in the aftermath of the Kosovo conflict, for military observation satellites. A notable feature of the military market is its relative predictability in terms of orders and sales over a long-term period.

The navigation satellites segment is at an early stage of development in Europe, where a definitive decision to develop the European navigation system, Galileo, is due to be taken by the end of 2000. The GalileoSat constellation, currently in its definitional phase, is expected to be deployed between 2006 and 2008, allowing users access to navigational data independently from the U.S.-based Global Positioning System (GPS).

The commercial telecommunications satellite manufacturing market is highly competitive, with customer decisions based principally on price, technical expertise and track record. EADS' main competitors worldwide are Boeing, Hughes, Loral and Lockheed Martin of the United States and Alcatel Space of France.

In the institutional market for earth observation and scientific satellites, EADS will continue to face competition from several players, which may be directly active as prime contractors. Space agencies and other scientific institutions may also choose to retain the control of the mission design by acting as sole or joint prime contractor for certain programs.

Products

EADS constructs satellite platforms as well as payloads and major sub-systems and is thereby able to offer turnkey satellite systems to its customers.

Telecommunications Satellites

EADS produces broadcast satellites for INTELSAT, EUTELSAT, INMARSAT and other providers of fixed and mobile telecommunications services and direct-to-home broadcast services. EADS is also developing broadband services for customers. EADS' geostationary telecommunications satellites are based on the EUROSTAR family platforms, the latest of which is EUROSTAR 3000 — a market leading platform in terms of performance. In the first half of 2000, INMARSAT ordered three INMARSAT I-4 satellites, based on the EUROSTAR 3000 platform, intended for its mobile network data transmission system; during the same period, INTELSAT ordered one satellite and an order for a second satellite should be placed soon.

In the field of military telecommunications satellites, EADS is manufacturing the fourth series of satellites for NATO and acts as a prime contractor for the UK military communications satellites of the Skynet series. Consortia led by Astrium (Paradigm) and Lockheed Martin are competing for the award of the Skynet 5 contract to provide military telecommunications services to the UK Ministry of Defence.

Observation and Scientific Satellites

EADS is the leading European supplier of earth observation satellite systems, for both civil and military applications. In this field, EADS derives significant benefits from the common elements of its civil and military programs.

EADS is the prime contractor for the following civil earth observation programs: (1) ENVISAT, a European environmental monitoring satellite; (2) METOP, a polar orbiting meteorological satellite system; and (3) SPOT 5, a high resolution satellite system with extended coverage capability. With respect to MSG, a second generation meteorological satellite system, EADS supplies the instruments.

In addition, EADS has been selected by CNES as prime contractor for Pleiades, a series of small earth observation satellites based on the Leostar platform, and is assessing the feasibility of TerraSAR, a constellation of small radar satellites.

EADS is prime contractor for HELIOS, the only European military observation satellite system to date. EADS is currently manufacturing the second generation HELIOS 2 system. In addition, Management believes that EADS is well positioned to play a leading role in the development of military radar observation satellite systems, which a number of European governments consider to be a necessary complement to existing optical systems.

EADS has a successful track record in the manufacture of scientific satellites, such as the X-Ray Multi Mirror (XMM). In addition, EADS has recently been selected as prime contractor for the development of the Mars Express and Rosetta interplanetary probes.

Navigation Satellites

EADS, together with Alcatel Space and Alenia Spazio, has established a dedicated company to build and implement the European navigation system Galileo, should the necessary approvals be granted. The space segment of Galileo would comprise a constellation of 24 satellites.

ORBITAL INFRASTRUCTURE

Overview

The orbital infrastructure segment comprises manned and unmanned space systems. The International Space Station (ISS), together with related vehicle and equipment development programs and services, constitute the predominant field of activity in this segment.

Market

The demand for orbital infrastructure systems originates solely from publicly funded space agencies, in particular ESA, NASA, RKA (Russia) and NASDA (Japan). Such systems are usually built by cooperation among international partners. The European contribution to the ISS will include (1) the Columbus Orbital Facility, a laboratory module attached to the ISS, (2) vehicles for freight deliveries and crew transportation and (3) provision of logistic and other services for the ISS. The first parts of the ISS were launched and assembled in December 1998. The station is expected to be completed by 2005. EADS has applied for a twelve-year contract to provide services to the ISS once it becomes operational.

All work related to the development and construction of the ISS has already been allocated to contractors, and therefore there will be no future tenders for significant contracts on this project. Once the ISS is operational, a range of orbital infrastructure products will be open to general competition, for example the provision of equipment for scientific experiments. A further market for the utilization and servicing of the space station will open after the station becomes operational.

Products

Manned Laboratories or Habitats

EADS is the prime contractor for the development and integration of the Columbus Orbital Facility and is responsible for the Columbus on-board Data Management System. EADS participates in the construction of the ISS robotic system European Robotic Arm and provides structures for the ISS.

Vehicles

EADS is prime contractor for the development and manufacture of the ATV (Automated Transfer Vehicle), used for freight deliveries to the ISS. Eight ATVs are planned and will be launched by Ariane 5. EADS is also participating in the technological development for the ISS of the U.S. manned re-entry vehicle, known as the Crew Return Vehicle (CRV). Furthermore, in 1998 AML was prime contractor for ARD (Atmospheric Re-entry Demonstrator), a module which successfully demonstrated re-entry technologies.

Launchers and Launch Services

Overview

Space systems (satellite and orbital infrastructure elements) are carried into orbit using rocket propelled multi-stage launchers. In most cases, the launcher's mission is to place the satellite into orbit, and the launcher is consumed during the launch process. EADS is active in two distinct businesses: it (1) manufactures launchers for both civil and military purposes; and (2) provides launch services through its interests in Arianespace, Starsem and Eurockot.

Market

The development of the launcher market depends, to a high degree, on the demand for satellites and orbital infrastructure. The open market for launch services is estimated by Management to be approximately 30 satellites a year (excluding satellite constellations), mostly made up of geostationary telecommunications satellites. This market does not include launch services for the American, Russian and Chinese military and governmental agencies.

The launcher market has high barriers to entry because it is technologically complex and national governments provide funding for development activities only to a few companies. Therefore, competition is limited to a small number of companies.

A limited number of manufacturers act as custodians of such publicly funded technologies. These can be viewed as “national champions”, such as Boeing and Lockheed Martin in the United States, EADS in Europe and a few companies from the former Soviet Union and China. These manufacturers act as partners, participating in the price reductions necessary to maintain the competitiveness of their related launch services providers.

The advent of an increasingly large, profit-driven private customer base for satellites has encouraged the development of launch services companies willing to compete on price and quality of service. Among them, certain ventures have been organized, combining access to low-cost, reliable military rockets from former Soviet Union companies deprived of a military market after the collapse of the Soviet Union, with the marketing know-how and access to the satellite open market of western manufacturers.

France follows an independent strategic defense policy which is currently based on submarine-launched ballistic missile systems. In 1998, the French state decided to develop a new generation of ballistic missiles. In addition to new sales and state-financed development work, the ballistic missile segment entails substantial maintenance work to ensure system readiness over the life span of the equipment, which may stretch over several decades. EADS' ballistic missile segment activities are conducted through AML, which is the exclusive supplier of ballistic missiles to the French State, its sole customer in this area.

Products

Launch Services

EADS is active in the field of launch services through its shareholdings in Arianespace for heavy-lift launchers, Starsem for medium-lift launchers and Eurockot for small-lift launchers.

Arianespace. EADS controls directly and indirectly 24.5% of the voting rights and has a 22.9% economic interest in Arianespace Participation, which represents 23.2% of the voting rights and a 21.7% economic interest in Arianespace, making EADS the second largest shareholder after CNES, the French national space agency and the largest industrial shareholder. Arianespace is the world's largest commercial launch service provider in terms of total sales in 1999 with over 120 commercial launches since 1984. It markets and sells European launchers on the world market and carries out launches from the Kourou space center in French Guyana. Its market share of the open market is approximately 50%. Capitalizing on the long-term expertise of Arianespace, the Ariane family distinguishes itself by offering flexibility and reliability, two qualities which are key for the customers in this market. Ariane 5 has the capacity to launch one or more objects with a total charge of up to 6 tons into transfer orbit for geostationary satellites. In response to the trend towards larger and heavier telecommunications satellites, new versions of Ariane 5 are being developed with capacity to launch up to 11 tons into such orbits. Arianespace launched ten Ariane 4 vehicles in 1998 and nine in 1999, and has up to eight scheduled for 2000. The first Ariane 5 commercial launch occurred in 1999 and up to five launches are scheduled for 2000. Management expects that the planned increase in frequency of Ariane 5 production cadence will enable EADS to realize efficiency gains by moving up the production learning curve.

Starsem. EADS directly owns 35% of Starsem, a French corporation. The remaining shares are held 15% by Arianespace, 25% by the Russian space agency and 25% by the Russian state-owned Central Specialized Design Bureau “Progress”. Starsem was created in 1996 to market launch services by Soyuz launchers for low earth orbit and medium earth orbit satellites. In 1999, Starsem successfully completed the first six commercial launches of 24 Globalstar satellites into orbit, and in early 2000 successfully tested the high capacity launcher Soyuz Fregat. Its orders backlog today includes launches for institutional satellites (Cluster II, Mars Express), Skybridge (11 launches for 32 satellites) and Globalstar.

Eurockot. EADS (51%) and Khrunichev (49%) jointly control Eurockot, which was created in 1995 to procure launch services for small low earth orbit satellites with Rockot launchers at lower cost. Rockot launchers are

derived from the SS-19 ballistic missiles. The qualification launch, in commercial configuration, successfully took place on May 16, 2000.

Commercial Launchers

EADS manufactures launchers and performs research and development for the Ariane programs. ESA is responsible for the Ariane development programs and funds the development cost for Ariane launchers and associated technology. Assisted by EADS, it has delegated this responsibility to CNES. Once ESA certifies the launcher, Arianespace markets and sells launch services worldwide.

EADS is the industrial architect for Ariane 4 and Ariane 5 launchers. EADS is presently focusing on the production of Ariane 5 as it will gradually phase out the production of Ariane 4 by 2003. In addition, it also supplies Ariane 4 and Ariane 5 stages and boosters, produces vehicle equipment bays, provides the flight software and supplies cylindrical interstage structures to Arianespace. These activities in the Ariane program underscore the key position of EADS in the European launcher industry. Furthermore, EADS also supplies launcher equipment to non-European customers, particularly in the United States.

Ballistic Missiles

EADS designs, constructs, tests and maintains ballistic missiles. The M4/M45 is a sea-launched intercontinental ballistic missile. Under its contract with the French State, EADS will provide industrial maintenance for the M4/M45 system until the end of its operational service. EADS is under contract to develop the M51, a new submarine based strategic system with increased technical and operational capabilities. The initial development phase is scheduled for completion in 2008. Management believes that the development and production of the M51 will provide EADS with technologically sophisticated work over the long term thanks to subsequent production and development work.

In addition to being relatively predictable, current orders for the development of ballistic missiles coincide with the entry of Ariane 5 into the production phase thereby facilitating the optimal utilization of development capacity.

OPERATIONS AND SERVICES

EADS is exploring the possibility of entering new ventures to provide value-added services based on space systems. EADS reviews every investment opportunity on a case-by-case basis, assessing associated risks and prospective financial returns. Management believes that the development of these ventures could generate significant revenues with high profitability.

EADS holds stakes in a number of companies providing telecommunications and earth observation services. The telecommunications services market has experienced strong growth in recent years and Management expects this trend to continue.

EADS' current interests in this area can be summarized as follows.

Nahuelsat S.A. At present, EADS has a 21% stake in Nahuelsat S.A. Nahuelsat operates the first Latin American satellite with full high power coverage in the Ku band covering the whole continent.

Globalstar. EADS has a stake of about 1.2% in Globalstar, a satellite-based telecommunications company providing users with worldwide telephony and other digital telecommunications services such as paging, messaging and positioning. Globalstar commenced its activities in October 1999 with a satellite constellation in full operation since January 2000. EADS has also acquired an approximately 18% shareholding in Globalstar do Brasil, which has the exclusive right to market Globalstar services in Brazil.

Additionally, EADS has stakes in companies such as SpotImage, Eurimage and NRSC which distribute images obtained mostly from earth observation satellites and through airborne reconnaissance and provide related value added services.

Should the Galileo system be approved and implemented, EADS will consider participating in its operation and in providing Galileo based services, such as traffic control, road tolling, logistics and security applications.

Production and Suppliers

EADS currently operates production facilities which are located in France, Germany, Spain and the United Kingdom. The following table provides key information with respect to the current production facilities:

<u>Site</u>	<u>Current Production Facilities</u> <u>Principal products</u>
Aquitaine, France	Ballistic missiles and re-entry vehicles
Bremen, Germany	Orbital infrastructure and launcher stages
Friedrichshafen, Germany.....	Satellites, launcher structures and microgravity facilities
Kourou, French Guyana.....	Boosters and Ariane operations support
Lampoldshausen, Germany.....	Launchers and satellite propulsion
Les Mureaux, France.....	Launchers and equipment
Madrid, Spain.....	Satellites and launchers structures — Equipment
Ottobrunn, Germany	Satellite equipment and propulsion
Portsmouth, Great Britain.....	Space activities
Rostock, Germany.....	Orbital infrastructure
Stevenage, Great Britain.....	Satellites and launchers sub-systems and equipments
Sturmbaum, Germany.....	Space activities
Toulouse, France	Satellites
Trauen, Germany.....	Payload and rescue systems
Vélizy, France	Satellite equipment

DEFENSE AND CIVIL SYSTEMS

Introduction and Overview

The Defense and Civil Systems division (the “DCS Division”) is active in the fields of missiles and missile systems, defense electronics, telecommunications and services. Based on 1999 revenues, EADS is the largest manufacturer of tactical missile systems in Europe and the second largest in the world. EADS is the third largest supplier of defense electronics in Europe and, with its partner Nortel Networks, plays a significant role among multinational telecommunications companies active in the military and civil markets. On a pro forma basis, the DCS Division earned revenues of Euro 3.8 billion for 1999, representing 16.3% of EADS’ total pro forma revenues.

The formation of EADS will integrate the commercial, technological and industrial fields of expertise of its businesses within a single organization and create opportunities for synergies within and among these businesses. For example, the combination of EADS’ three missile businesses will generate increased efficiencies in research and procurement and enhanced access to customers. In the area of defense electronics, Aerospatiale Matra and Dasa specialize in different, but complementary, types of defense systems, so following their combination, EADS will be able to offer not only a wider range of individual systems solutions to a broader base of defense customers, but a more powerful systems integration capability. Furthermore, combining Aerospatiale Matra’s and Dasa’s expertise in telecommunications systems and systems integration will increase EADS’ capability to offer integrated military and commercial telecommunications solutions in this segment.

Strategy

The strategic priorities of the DCS Division are as follows:

- ***Reap synergies in the missile business.***

By integrating its missile and missile systems businesses and leveraging their commercial, technological and industrial strengths, the DCS Division aims to improve margins, increase EADS’ global market share and offer a more comprehensive range of missiles and missile systems to its customers.

- ***Strengthen EADS’ global position in the expanding market for defense electronics systems.***

Through partnerships and acquisitions, the DCS Division intends to quickly grow the defense electronics business around systems for command, control, communication and intelligence (C3I), and surveillance and reconnaissance.

- ***Exploit technological and marketing synergies between military and commercial telecommunications businesses.***

The DCS Division plans to leverage EADS’ superior access to governmental customers and the advanced technological platforms of its defense and commercial telecommunications activities in order to expand its share of the growing market for secure telecommunications for governmental customers. Access to Nortel Network’s expertise through EADS’ joint ventures will continue to provide EADS with a key asset in applying commercial telecommunications technologies to meet governmental requirements.

- ***Boost profitability by increasingly acting as a prime contractor and systems integrator.***

The DCS Division seeks to expand its role as prime contractor and systems integrator of defense systems, allowing it to command higher-margin orders and satisfy the growing need of military clients for complete turnkey solutions.

- ***Access the U.S. market for defense electronics.***

The DCS Division will seek to cooperate and partner with U.S. companies to access the particularly large and attractive U.S. defense market for defense electronics.

- ***Profit from increasing military demand for outsourcing support services.***

To capitalize on the trend towards outsourcing of support activities by armed forces, the DCS Division will develop its value-added activities in the field of services, operations and customer support.

MISSILES AND MISSILE SYSTEMS

Introduction and Overview

The Missiles and Missile Systems sector of EADS brings together the market leaders in terms of sales in France, Germany and the United Kingdom through (1) Aerospatiale Matra Missiles (“AMM”), Matra Defense (“MD”) and Matra BAe Dynamics (“MBD”) (a 50-50 joint-venture between EADS and BAE SYSTEMS), and (2) EADS’ German missile activities, primarily those of LFK-Lenkflugkörpersysteme GmbH (“LFK”). MD retains responsibility for certain long-term export contracts due to expire by 2001.

The combined missiles and missile systems product portfolio of EADS includes such internationally recognized names as the Exocet, Kormoran, Roland, Milan, Mistral, ASRAAM, Mica, Seawolf, RAM, Patriot, Stinger, Taurus and Scalp EG/Storm Shadow.

As a result of aerospace and defense industry consolidation in the United States and Europe, further European missiles and missile systems integration is expected. EADS, BAE SYSTEMS and Finmeccanica are negotiating the creation of a new company which would combine the businesses of (1) EADS’ wholly-owned subsidiary AMM, (2) MBD, and (3) the missile and missile systems activities of Alenia Marconi Systems (AMS), a joint venture between BAE SYSTEMS and Finmeccanica. This merger would develop existing product portfolios, mainly in the Surface to Air/Land and Surface to Air/Ship sectors, provide direct access to the Italian market and would reinforce the leading position of EADS in Europe and its number two position worldwide, behind the American leader Raytheon. EADS is currently negotiating the possibility of a further joint venture or other form of consolidation involving its German missile business.

EADS expects to realize synergies in the Missiles and Missile Systems sector due to the complementary nature of the disparate missile businesses, the industrial optimization of the combined product portfolio and improved market access. EADS will provide the industrial basis for the much needed standardization of weapons of the main European countries.

EADS will also continue to enjoy a geographically diverse aggregate customer portfolio. Through a multinational network of subsidiaries EADS will have direct access to the major European domestic markets for missiles and missile systems in France, Germany, Italy, Spain and the United Kingdom. EADS also has significant export activities and about half of EADS’ 1998 pro forma Missiles and Missile Systems sector consolidated sales were made outside of these domestic markets.

Markets

Market data in the missile sector is limited due to the classified nature of this information and the sensitivity of buyers and sellers of missiles and missile systems to the general dissemination of such information. The figures mentioned in this section are therefore only based on estimates by EADS and not on official, publicly-available information.

The worldwide market for missiles and missile systems is expected to be Euro 12 billion in 2000. It is expected that it will increase to Euro 14.5 billion in 2005 (constituting a 20% increase). This trend is expected to continue after 2005 due to (1) the development of new products (such as tactical ballistic anti-missile systems and stand-off guided weapons), (2) new missile-carrying platforms entering into production phase (Mirage 2000-5/9, Rafale, Eurofighter, Gripen, Tiger helicopter, new frigate and aircraft carriers) and (3) new requirements stemming from new operational doctrines.

EADS believes that certain segments of the market will witness dynamic growth in the coming years, as a result of the new geopolitical environment and lessons learned from recent conflicts. The conflict in Kosovo has highlighted the importance of stand-off weapons which are fired from a distance thereby minimizing potential casualties among the operators of these weapons. Such conflicts have also highlighted the key importance of dominating the airspace and this should lead to a greater emphasis in European budgets on new generation air to air and surface to air missiles. In these segments, EADS is well positioned with a renewed range of products.

At present, European firms cannot easily penetrate the U.S. market. Due to political support, this market is very much dominated by national U.S. entities such as Raytheon, Lockheed Martin and Boeing. Other countries, such as Russia and China are also inaccessible for political reasons.

Four principal defense contractors are active in the worldwide market for tactical missiles and missile systems: EADS/BAE SYSTEMS (through MBD), Raytheon (U.S.), Lockheed Martin (U.S.) and Boeing (U.S.). In addition to political considerations and budgeting, key buying factors for the customer include price, performance of individual products, adherence to specifications, launch platforms and system support.

Products

Missiles and Missile Systems can be divided into seven principal categories according to the launch platforms and targets: (1) air to air; (2) surface to air/land; (3) surface to air/naval; (4) air to surface; (5) anti-ship; (6) anti-tank; (7) ground to ground. As shown in the following table, EADS is active in all of these categories through MBD, AMM and Dasa's missile activities.

In the table below, "X" indicates a participation, as a prime contractor through itself or joint ventures and "O" indicates participation as a subcontractor through itself or joint ventures. The use of parentheses indicates that the product is still at the tendering stage.

Type of Missiles	Purposes	MBD	AMM	Dasa	Key Products or Projects
Air to Air.....	Short range	X			Magic 2 — ASRAAM
	Medium range	X		O	MICA — (Meteor)
Air to Surface.....	Short range	X	X	X	BGL-AS 30L — (AASM) — AFDS
	Stand-off with sub-munitions	X	O	X	Apache — DWS39/AFDS
	Stand-off unitary warhead	X		X	Scalp EG/Storm — Shadow-Taurus
	Prestrategic stand-off		X		ASMP — ASMP A/VESTA
	Anti-radar	X			ALARM
Surface to Air/Land.....	Very short range	X		X	Mistral — Stinger (under license)
	Short range	X	X	X	Roland — Rapier
	Medium range		X	O	Aster/FSAF — (MEADS) — Patriot PAC 3
Surface to Air/Ship.....	Very short range	X			Mistral
	Short range	X		X	Seawolf — RAM
	Medium range	X	X	X	Aster/PAAMS — ESSM
Anti-ship	Light	X	X	X	Sea Skua — AS 15 TT — NSM — (Triton) and (Polyphem S)
	Heavy	X	X	X	Exocet — (ANF/VESTA) — Kormoran 2
	Anti-submarine	X			Milas
Anti-tank	Short range		X		Eryx
	Medium range	X	X	X	Milan — Trigat MR
	Long range	X	X	X	HOT — Trigat LR
Ground to Ground.....	Medium range	O	X	X	G-MLRS (Trifom)

MBD, AMM and Dasa each have their own specific areas of expertise.

MBD is active in each of these missiles and missile systems categories except for air to surface prestrategic missiles and is the prime contractor for the development and marketing of most of the products. In addition to having an existing range of key products such as MICA, ASRAAM, Apache, Scalp EG/Storm Shadow, Mistral and Trigat, MBD has both recently concluded new contracts and is in the advanced stages of tendering for other projects. In 1999, MBD was awarded the contract for the development, industrialization and production of the UK PAAMS (Principal Anti-Air Missile System), the main weapons system of the new generation of European anti-air defense frigates. MBD is also the leader of the European team tendering for the Meteor project, aimed at providing the next generation medium range air to air missile for the future European aircraft (Eurofighter, Gripen).

AMM is active in each of these missiles and missile systems categories. AMM is a world leader in terms of sales for anti-tank, anti-ship and surface to air missiles. Milan and Hot anti-tank and Exocet anti-ship missiles are products with proven effectiveness and reliability in combat. Aster missiles provide an opportunity to exploit new

markets in the developing anti-missile segments for both point defense and area defense. AMM is currently developing a number of new products including surface to air Aster missiles and associated systems; anti-tank Trigat family; anti-ship ANF-VESTA; and prestrategic tactical supersonic missile ASMP-A-VESTA.

Dasa is active in each of these missiles and missile systems categories except for air to air missiles. Dasa's activities can be divided into three main areas: (1) cooperation programs with partners now regrouped in EADS, (2) transatlantic cooperation programs and (3) programs under the lead of Dasa.

Dasa's activities in cooperation with partners now integrated in EADS, center on anti-tank and short range air defense missiles (Milan, Hot, Roland).

The transatlantic cooperation programs are focused on air defense systems through participation in the Patriot program and the future medium extended air defense system (MEADS). Furthermore, LFK is the prime contractor for the Eurostinger project and Raytheon's partner for ship-based air defense systems such as RAM.

Programs under the lead of Dasa include cruise missiles and other stand-off weapons systems such as DWS 39/AFDS and Taurus, as well as the Kormoran 2 anti-ship missile and participation in the German Gepard program.

Many activities of MBD, AMM, Dasa and LFK are carried out through joint companies. EADS participates *inter alia* in the following joint ventures and consortia. Those entities that are subsidiaries of EADS are highlighted in bold.

<u>Structure</u>	<u>Parties involved</u>	<u>Major Activities and Products</u>
EMDG	MBD (33%) Dasa (33%) AMM (33%)	Industrial coordination and Marketing of Trigat MR and Trigat LR
EUROMISSILE.....	Dasa (50%) AMM (50%)	Industrial coordination and Marketing of Milan, Hot, Roland and associated products
EUROMEADS	Dasa (33%) LFK (33%) AMS (33%)	Participation in Development of an Air Defense system
RAMSYS.....	Dasa (50%) BGT (25%) Diehl (25%)	Production of Surface to Air RAM (Naval) under license from Raytheon
GLVS.....	LFK (50%) Lockheed Martin (50%)	Production of Patriot PAC3
COMLOG.....	Dasa (50%) Raytheon (50%)	Repair and Maintenance of Patriot Missiles
TAURUS.....	LFK (67%) Bofors (33%)	Development, production and marketing of Taurus Missiles
MILAS	MBD (50%) AMS (50%)	Anti-submarine torpedo carrier
UKAMS.....	MBD (100%)	Development and production of UK PAAMS
EUROSAM.....	AMM (33%) AMS (33%) Thomson-CSF (33%)	Development, production and marketing of Aster naval and land-based Missiles Systems
EUROPAAMS.....	EUROSAM (66%) UKAMS (33%)	Development, production and marketing of naval Aster system family

In addition to its key activities in missiles and missile systems, EADS also designs and manufactures, both itself and through participations, critical missile sub-systems such as warheads, propulsion devices, proximity fuses and guidance systems. These sub-systems account for more than half of a missile's cost. More than three-quarters of the sub-systems produced by EADS entities are for EADS' own missiles. EADS is also active in other missile sub-systems such as launch structures and missile thermal batteries.

Customers and Marketing

Orders for missiles and missile systems originate from ministries of defense or branches of armed forces. Budgetary constraints have led these major clients to focus on standardized products procured through a common structure. Management believes this trend could benefit EADS as it offers a complete missile and missile system product portfolio.

DEFENSE ELECTRONICS

Introduction and Overview

Defense Electronics products consist of complete systems, sub-systems and equipment. These systems process data obtained from sensors such as radars, help decide upon the appropriate action and manage these actions in real time (command, control, communication and intelligence — C3I). They are marketed to the client both as isolated equipment and systems or as integrated overall systems providing the customer with turnkey solutions.

Both Dasa and Aerospatiale Matra are working on similar projects and programs for integrated systems for national French and German customers. Together Dasa and Aerospatiale Matra cover almost all the subdomains and elements of these systems. The creation of EADS provides the opportunity to optimize resources and expertise, creating economies of scale in their funding of research and development.

The contributions from Dasa and Aerospatiale Matra should mutually reinforce their respective expertise and enable EADS to offer complete solutions to its customers. For example, EADS will be able to provide complete surveillance systems including platforms, sensors, ground segment and underlying command and control systems or full intelligence systems combining image intelligence and signal intelligence.

Market

Estimates by a third-party research analyst suggest that in excess of Euro 50 billion is spent annually worldwide on defense systems and defense electronics with this amount likely to increase in the future.

EADS believes that the defense systems and defense electronics segment will grow in the medium term to long term even if European defense budgets overall should decline. Recent conflicts, such as Kosovo, have shown an increasing need for specific defense electronic equipment interoperability in C3I of the armed forces.

International competition in Defense Electronics includes large U.S. or European companies, Raytheon, Lockheed Martin, Thomson-CSF, BAE SYSTEMS, as well as competitors from Israel. There are also specific national competitors in some areas of this business, such as Groupe Sagem in France and STN Atlas Elektronik GmbH in Germany.

Products

Systems Integration

Systems Integration consists of providing sophisticated defense systems solutions to carry out complex tasks, such as surveillance, observation and defense missions. The objective is to provide turnkey systems and package deals responding to complex customer needs.

C3I Systems

C3I systems form an essential part of current and future battlefield management. These computerized systems establish the overall battlefield picture and support the command and control process over all command levels, from a tactical, battlefield-level through to a higher, strategic command level.

The main objectives of C3I systems are timely information display and reliable and rapid data exchange among allied and coalition forces. In response to the increasing demand for interoperability and improved information exchange, EADS is integrating standardized protocols and electronic documents. EADS is a major designer and supplier of C3I systems to the three branches of the armed forces in France and Germany, and the Joint Staffs in Germany, France and NATO.

Surveillance and Reconnaissance Systems

EADS has considerable systems capabilities with respect to strategic and tactical airborne and satellite-based reconnaissance and surveillance systems. EADS' activities include the design and production of systems and sensors, payload integration with platforms, ground stations, image exploitation and data processing. EADS provides mission equipment, such as the synthetic aperture radar for manned and unmanned platforms.

EADS has system responsibility for the operational system of the CL289 drone reconnaissance system of the French and German army, which was used successfully in the operations in former Yugoslavia and is in the process of developing a number of other unmanned air vehicle systems (UAV) such as the Navy drone system Seamos for ship-based maritime reconnaissance.

EADS is the European leader in satellite image processing and ground stations on the basis of 1999 total sales, and has been selected by the U.S. Air Force as the contractor for the Eagle Vision multi-satellite ground data terminal. EADS is also a principal contractor for the image processing stations in France for the Helios military observation satellite and SPOT civil observation satellite.

EADS will play a key role in the future joint intelligence, surveillance and reconnaissance systems (joint ISR systems) involving airborne manned vehicles, drones and space-based resources. A major part within joint ISR systems is the NATO Airborne Ground Surveillance program. EADS is the lead company in the five nation program for the European demonstrator SOSTAR-X as well as for the common ground station. Within joint ISR, EADS is already under contract for a ground system which will integrate current and future reconnaissance and surveillance systems based on internet technology.

System Simulation and Training Systems

EADS supports the armed forces with simulation and training modes as part of C3I systems (war-game simulation), and training systems using real simulation and virtual reality for operating and firing simulators. Important applications include missile firing training, air defense training and driving simulation. EADS has also played a significant role in establishing and operating an advanced combat training center for the German armed forces.

Airborne Radar

EADS is the German partner for a number of airborne multi-mode radars for airborne platforms such as the ECR 90 radar of the Eurofighter. With delivery of this aircraft due to start in 2002, this will lead to significant business opportunities in this area. EADS also has significant activities in systems services, systems maintenance and upgrade. Every fighter aircraft system is updated several times during its life cycle. Recent examples of programs include the improvement of the F-4 Phantom fighters radar and the Tornado nose radar program.

In a German, French and British consortium, EADS is developing through AMSAR, a technology program for the future generation of airborne radars for combat aircraft.

United Monolithic Semiconductors ("UMS") is currently a 50/50 joint venture of EADS and Thomson-CSF. It was created to guarantee access to gallium arsenide technology such as next generation radars with active phased arrays as well as synthetic aperture radars. Gallium arsenide components are in service for military, space and ground based applications and have demonstrated their leading edge position in the Space Shuttle XSAR mission. UMS is also a key component supplier in the growing commercial market for wireless broadband telecommunication. It is a leading supplier for point-to-point wireless broadband datalinks for mobile communication networks.

Airborne Electronic Warfare

EADS provides (1) passive electronic warfare units, such as the Radar Warning Receiver for Tornado and Transall, and (2) active electronic countermeasure units, such as the Tornado Self Protection Jammer and towed decoy units. A special electronic warfare suite has been developed for helicopters which has, as of early 2000, been ordered by the German ministry of defense for the first batch of Tiger combat helicopters.

Avionics and Identification Systems

EADS has developed digital map units for flying platforms and obstacle warning systems for helicopters. In addition, having developed the IFF-Subsystem (Identification Friend Foe) for the Eurofighter, EADS is in the process of developing a next generation IFF with European partners. EADS is also developing multi-sensor integration and data fusion technology, which is a key future technology in this area.

Naval Sensors and Sub-Systems

EADS supplies electronic equipment for military naval vessels. This includes radar systems, equipment for electronic warfare, combat direction systems along with naval communications which are integrated to complete "combat systems." The combat direction system for the new German and Dutch Frigate F124 is in the course of development in cooperation with European partners.

EADS also exports optical (infra-red and visible) fire control units for missile systems and guns onboard ships.

Ground Sensors and Sub-Systems

EADS provides fixed and mobile, ground-based air defense, radar, electronic warfare and identification systems for ground forces as well as radar systems for military air traffic control. These include sensors for tank self-protection

and control systems for weapons and tank turrets. EADS also supplies coastal surveillance and coastal protection systems.

Signal Intelligence Equipment

EADS' signal intelligence products monitor the electro-magnetic spectrum to provide information about enemy forces. These products are a key element to attaining information superiority. EADS also produces counter measure systems (Jammers) to disrupt adverse communication.

Customers and Marketing

EADS' key customers for Defense Electronics are ministries of defense, primarily in France and Germany. Through various joint ventures and cooperations, EADS has access to ministries of defense of other NATO customers, in particular in the United Kingdom, Spain and Italy through programs using common transnational structures. Export markets also offer growth opportunities.

TELECOMMUNICATIONS

Introduction and Overview

EADS is present in the rapidly growing market of telecommunications solutions, through its holdings in Matra Nortel Communications ("MNC") and Nortel Dasa Network Systems GmbH & Co. KG ("Nortel Dasa"). EADS has access to the significant range of Nortel Telecom Network products. These products address all enterprise and carrier requirements and include Internet telecommunications, voice or data switching, e-business and optical transmission. EADS, through MNC and Nortel Dasa is helping to build, in France and Germany, the new high-performance Internet and is pursuing a "Unified Networks" strategy, combining voice and data communications networks with wire-line, cellular, and satellite communications networks.

EADS, through its telecommunications subsidiaries, intends to leverage its commercial and Internet technologies (including Internet protocol (IP) technology) to offer secure telecommunication solutions to military customers. Analysis of recent peace-keeping operations highlights an increasing need for interoperability. Civil telecommunications already developed by EADS should provide a cost-effective and innovative solution to the requirements of military telecommunications.

EADS' telecommunications activities will bring together the former Aerospatiale Matra and Dasa entities (1) MNC, which is a 45/55 joint venture between Aerospatiale Matra and the Canadian group Nortel Networks ("Nortel") and (2) Nortel Dasa a 42/58 joint venture between Dasa (in conjunction with Dornier) and Nortel. Following Nortel's acquisition of Bay Networks in 1998, Bay Network's businesses in France and Germany have been integrated within MNC and Nortel Dasa, respectively.

In May 2000, as part of a strategic reorganization, MNC contributed its secured mobile networks and military telecommunication activities to a newly incorporated company named EADS Defence and Systems Networks ("EDSN"). Following a capital increase, EADS will hold a 55% interest and Nortel a 45% interest in EDSN.

EDSN benefits from a lasting technology partnership with Nortel which positions it well to compete in the defense and security telecommunications markets. EDSN may soon expand with planned acquisitions.

Only EADS' satellite communication and Secured Mobile Networks activities will be marketed on a worldwide basis. All remaining products and services in this area will be marketed exclusively in France (MNC) and Germany (Nortel Dasa). With respect to the private branch exchange ("PBX") systems for business, the products (essentially developed by MNC) will be marketed through foreign joint ventures and subsidiaries.

Markets

The communications networks of large corporations organize and transmit data and voice over their internal computer and telephone systems. Enterprise solutions networks consist of switching systems and trunk lines which handle the centralized flow of voice and data traffic between the local networks and user terminals of private business networks. Current market trends focus on the integration of voice and data networks through increasing reliance on Internet protocols. Carrier networks are public external networks carrying high volume of voice and data. The same technology trends that are visible in relation to enterprise solutions are evident here. Secured mobile network systems offer various wireless type of communications: group communications, individual communication with different levels of priorities and walkie-talkie mode. For the security market, encryption is required to ensure confidentiality.

Demand for data switching equipment products from public operators in France and Germany, which was already growing prior to 1999 due to increasing volumes of data transmission, is expected to increase significantly in coming years as a result of the increased number of operators since the telecommunications markets of France and Germany were opened to full competition.

In 1999, EADS had through MNC a 10.8% market share in France for carrier solutions and an 18% market share for enterprise solutions. For secured mobile networks, EADS has through MNC a 23% market share worldwide and 37% market share in Europe.

In 1999, Nortel Dasa had a 10% market share in Germany for carrier solutions and a 4% market share for enterprise solutions. In relation to satellite communications, it had 14% of the worldwide market for TV uplink and satellite news gathering (SNG).

The main competitors of EADS are Lucent, Siemens, Alcatel, Ericsson and Motorola which are voice-centric as well as Cisco and 3Com which are data-centric.

EADS is active in both the civil and commercial as well as the military and secure telecommunications fields. In civil and commercial telecommunications, EADS' activities can be divided into the following main areas: Carrier Solutions, Enterprise Solutions, Satellite Communications, Emerging Internet Services and Applications. In military and secure telecommunications, EADS' activities cover Secured Mobile Networks and Military Communications.

CIVIL AND COMMERCIAL COMMUNICATIONS

Products

Carrier Solutions

EADS, through its telecommunications subsidiaries, is a leading supplier of Internet-Protocol networks (IP-networks), high-speed and long-distance networks, switching products, local loop equipment and fibre-optic and cellular telecommunications networks. EADS distributes this public networking equipment supplied by Nortel but has no manufacturing activity in this field.

The product line ranges from high-capacity fibre-optic transmission systems; high-end switched-routing platforms; remote access switches; packet telephony gateways, high-speed access solutions and Synchronous Optical Network (SONET) capabilities.

Enterprise Solutions

Enterprise Solutions provide data and voice-orientated communications solutions, call center solutions as well as IP based solutions. EADS, through MNC and Nortel Dasa markets a wide range of data networking systems provided by Nortel. Since the acquisition of Bay Networks Inc. by Nortel, MNC and Nortel Dasa have been distributing the Bay Networks range of local area network products, enabling it to cover the entire data transmission market from local area network to wide area network.

MNC has manufactured PBX systems since 1986 and both MNC and Nortel Dasa distribute PBX systems on behalf of Nortel. As of December 31, 1999, the installed base of MNC PBXs numbered over 150,000 systems, principally in France. MNC's PBX products are sold outside of France both by MNC's own subsidiaries and distributors and, through Nortel's distribution network which has provided the product with access to an additional market outside Europe. Through its wholly-owned subsidiary Intecom, EADS is also active in the market for large PBX systems and call center services in the United States.

Ground Stations and Satellite Communications

The Satellite Communications division is a leading manufacturer and supplier of ground stations and turnkey, satellite-based, communications networks to globally operating corporations and organizations. Included among its lines of products and services are TV-uplink and TV-downlink stations, SNG-broadcast vehicles, TV-contribution networks, satellite control stations and satellite-based, broadband, and corporate networks and IP-networks.

EADS provides initial advice, through product development and training, to maintenance and on-call assistance covering everything from individual components to full turnkey installations.

Emerging Internet Services and Applications

EADS offers services relating to architecture and administration of distributed information systems based on the IP (Internet Protocol) technology for the civil market. EADS' business also includes secured message handling applications (such as the French secured message handling system MUSE for military application).

EADS also produces, hosts and distributes internet, intranet and e-commerce services for companies, provides firewall and servicing software for the internet and services for the transmission by satellite of wideband communications.

Military and Secure Telecommunications

EADS' Management believes that the technology employed in civil telecommunications will play an increasingly important role in secured mobile networks and military telecommunications. EADS is well positioned to take advantage of this trend by leveraging the technological portfolio of the activities of its subsidiaries and the superior access to governmental customers. The creation of EDSN will allow it to exploit these opportunities most effectively.

Products

Secured Mobile Networks

EADS' secured mobile network product line centers on the fully-digital Matracom 9600. This system relies on the *de facto* standard Tetrapol, which is in use within more than 25 organizations worldwide. The Tetrapol technology has been recognized by the ITU (International Telecommunication Union) and the Schengen Group (European police cooperation council). The Matracom 9600 was the world's best selling digital secured multi-site professional mobile network in 1999 in terms of aggregate sales. This system provides superior radio coverage, audio quality and data capability as compared to its principal current market rivals.

Military Telecommunications

EADS provides tactical communications networks, fixed networks and radio communications equipment. These networks permit the transmission of information between different posts at all command levels. EADS is prime contractor for Autoko 90, the semi-mobile tactical network of the German army.

EADS also provides products and systems solutions for armed forces and civil authorities involved in national security with an emphasis on high frequency solutions.

Customers and Marketing

EADS' customers in the telecommunications field include public and privately owned broadcasting companies, major multinational corporations and international organizations, government agencies, ministries of defense, service providers and network operators. The principal clients for professional mobile radio systems include emergency services, private security providers, and utility companies.

SERVICES

Introduction and Overview

EADS is building its service activities around three main areas: (1) outsourced services, (2) test and related services and (3) engineering services.

The growing complexity of modern systems and engineering tools and the requirement for cost-effectiveness lead customers to seek turnkey solutions and not just the purchase of stand-alone equipment. As a result of its technical and organizational capabilities, EADS is well positioned to offer such turnkey solutions to customers through the pooling of the technical resources and products of its various subsidiaries.

For military forces, outsourcing is an effective solution to the problems of decreasing public budgets and to the decrease in army personnel occurring as a result of the professionalization of the armed services. In order to maintain its position as prime contractor with military customers and to generate profitable growth in stable defense markets, EADS aims to play a key role in such outsourcing of defense activities.

Products

Outsourced Services

EADS' capabilities include logistics and maintenance, simulation and training and facility management for training and simulation centers and test ranges. EADS is currently negotiating with the French Services to operate the Defense Communications Network as a full service providing both communications and the maintenance and development of the networks.

EADS' activities also include training air defense personnel and aircrews in the use of live ammunition and EADS currently operates the NATO Namfi shooting range in Crete.

In addition EADS provides tailor-made air targets, to meet the training needs of the armed forces concerned.

EADS also plans and implements tailored large-scale and specific security installations for sensitive areas adapted to take account of their particular constraints and threats.

Test and Related Services

The increasingly complex electronics used in aircraft and weapon systems ensures the continuing need for equipment maintenance testing.

EADS has a worldwide leading position in terms of market share for multi-purpose civil aviation test systems and services and is the largest European supplier of multi-purpose defense test equipment. In addition, EADS provides mobile test equipment for airborne sensors such as radars.

Engineering Services

EADS provides design and technical support and software engineering services to major public or private clients in the domain of security engineering and program management.

INVESTMENT

Dassault Aviation

Dassault Aviation is a major participant in the world market for military jet aircraft and business jets. Founded in 1945, Dassault Aviation has delivered more than 6,800 military and civil aircraft to purchasers in more than 70 countries. Dassault Aviation is listed on the Premier Marché (Monthly Settlement Market) of the *Paris Bourse*. On December 30, 1998, Aerospatiale acquired the 45.76% interest in Dassault Aviation previously owned, directly and indirectly, by the French State. The current shareholders of Dassault Aviation are Groupe Industriel Marcel Dassault (“GIMD”) (49.90%), EADS (45.76%) and the public (4.34%).

On the basis of its experience as designer and industrial architect of complex systems, Dassault Aviation designs, develops and produces a range of military aircraft and business jets.

Military Aircraft

Dassault Aviation offers two multi-role combat aircraft, the Rafale and the Mirage 2000 family.

- *Rafale*. The Rafale program includes three versions of a twin-engine, multi-role combat aircraft designed for both Air Force and Navy applications. According to government budgetary documents, France is considering the acquisition of 294 Rafale, 234 for the Air Force and 60 for the Navy, for a total program cost of Euro 30.5 billion, including Euro 8.7 billion for development. Forty-one aircraft have already been ordered, with 20 additional options. The first Rafale is to be delivered to the Navy during summer 2000.
- *Mirage 2000*. The Mirage 2000 family is offered in two versions:
 - (1) The Mirage 2000-5, its latest version, is a multi-role combat aircraft designed for air to air multiple-target combat, as well as air to ground missions. The Mirage 2000-5 can be armed with the MBD MICA air to air interception and combat missile; and
 - (2) The Mirage 2000-D, an all-weather penetration aircraft used by the French Air Force is being adapted to fire the new MBD SCALP EG stand-off air to ground missile as well as the AASM (modular air to ground missile).

Nearly 600 Mirage 2000 aircraft have already been ordered, nearly half of them by foreign countries.

Business Aircraft

Dassault Aviation offers a wide range of products at the top end of the business jet sector. The company makes four models of business aircraft: the Falcon 50 EX, Falcon 2000, Falcon 900 C and Falcon 900 EX which have met with substantial market success.

Due to the potential conflict between the military products of Dassault Aviation and EADS (Rafale and Eurofighter), Management has chosen to place EADS’ Dassault Aviation shareholding under the management of Strategy Coordination rather than in the Aeronautics Division, which manages EADS’ participation in the Eurofighter program.

Shareholders’ Agreement

Aerospatiale Matra’s investment in Dassault Aviation has been governed by a shareholders’ agreement, which permitted Aerospatiale Matra to appoint half of the members of Dassault Aviation’s board of directors and to exercise a veto right over the appointment of its chairman. In addition, Aerospatiale Matra could exercise a veto regarding certain matters, such as the launch of new programs, cooperation agreements, major or strategic acquisition or divestiture agreements and significant alliances with third parties.

The shareholders’ agreement also enabled GIMD to buy Aerospatiale Matra’s shares in Dassault Aviation in the event of a change in control over Aerospatiale Matra. GIMD and Aerospatiale Matra have entered into discussions to evaluate the consequences of the formation of EADS on Aerospatiale Matra’s rights pursuant to the shareholders’ agreement.

Aerospatiale Matra, in accordance with the shareholders’ agreement, has sent to GIMD a change of control notice as the result of the formation of EADS. Therefore, GIMD has exercised its right to purchase Aerospatiale Matra’s shares in Dassault Aviation. Aerospatiale Matra opposed, in accordance with the shareholders’ agreement. GIMD’s assertion of its right to purchase the shares, which resulted in the termination of the shareholders’ agreement without affecting the parties’ respective ownership interests in Dassault Aviation. As a result, the preferential

rights Aerospatiale Matra enjoyed under the shareholders' agreement have been terminated, but EADS continues to have all the rights protecting minority shareholders under French law, including a minority blocking right.

Dasa-Dornier Luftfahrt

DADC, which is 75% held by EADS, holds a 57.6% stake in Dornier GmbH, which in turn holds a 3% stake in the capital of Fairchild Dornier Luftfahrt Beteiligungs GmbH, which is the sole shareholder of Dornier Luftfahrt GmbH. Through this minor interest, EADS will not be involved in any business decision regarding Dornier Luftfahrt.

INTELLECTUAL PROPERTY

EADS

Intellectual property, including patents, trademarks and know-how, plays an important part in the production and protection of EADS's products and technologies. The use of intellectual property rights will enable EADS to manufacture and sell its products freely and prevent competitors from exploiting protected technologies.

The existing intellectual property rights held by each of Aerospatiale Matra, Dasa (except those relating to the Dasa Excluded Assets) and CASA and each of their subsidiary companies will be transferred to the EADS group. These rights, together with those rights acquired after the creation of EADS will be held directly by EADS or by its subsidiaries.

Each of the subsidiary companies of the EADS group will benefit from non-exclusive, non-transferable intellectual property licenses granted by the Company or other subsidiaries within the group. The conditions imposed on these licenses will be negotiated on a case-by-case basis and will be made with strict respect for the right of third parties and, in particular, respecting the contractual rights governing the relations between EADS and its subsidiaries with their partners.

Two agreements relating to intellectual property are of particular importance, namely: (1) the cross-licensing agreement of 1987 between the members of the Airbus Industrie consortium which provides for the free use by the parties of the intellectual property rights necessary for Airbus products, and (2) a cross-licensing agreement entered into in 1999 between the members of the Airbus Industrie consortium on the one hand and Boeing on the other hand.

Aerospatiale Matra

Subsidiaries of the former Matra Hautes Technologies group generally hold legal title to their intellectual property rights, subject to some limited exceptions. Before the integration of Matra Hautes Technologies, Aerospatiale had spun-off certain of its divisions into separate subsidiaries with effect from January 1, 1999. Aerospatiale (now Aerospatiale Matra) has generally retained its existing intellectual property rights and granted non-exclusive license agreements to these subsidiaries, except for rights specific to the hived down activities which have generally been transferred to the relevant subsidiaries. Rights acquired by the subsidiaries after their spin-off are generally held by them. For example, patents have generally remained held by Aerospatiale Matra whereas trademarks relating specifically to the products manufactured by these subsidiaries have been transferred to them, although Aerospatiale Matra has kept the right to use such trademarks for publicity and communication purposes.

Aerospatiale Matra holds the "Aerospatiale" name and trademark in France, whereas the "Matra" name and trademark are held by Lagardère in France and abroad, Aerospatiale Matra having a territorially unlimited, exclusive right to use it in connection with its activities, as long as Lagardère remains a preferred strategic partner in Aerospatiale Matra. The EADS group, subject to more specific provisions under partnership agreements, will benefit from such right to use the Matra name and trademark for a period of at least five years from Completion.

Aerospatiale Matra has a general policy of making intellectual property available within the group. For example, the members of the Centre Commun de Recherche have access to the intellectual property rights acquired by such research center through license agreements granted by it. See "— Research and Development."

The protection of Aerospatiale Matra's technologies relies both on the use of patents and on contractual means such as confidentiality agreements. Approximately 1,900 inventions are currently protected by approximately 8,500 patents worldwide.

Dasa

In 1996, an intellectual property management strategy was defined within the DaimlerChrysler group. The principles of this strategy and the protection of intellectual property arising from R&D activities were defined as important management functions for all business units and departments. In 1998, on the basis of that strategy, the decentralized intellectual property management functions were organized as a corporate service center, called "Intellectual Property Management" (IPM), which focuses not only on the protection of intellectual property but also on an active intellectual property support for R&D projects. The corporate IPM department today deals with an increasing number of inventions. Within the Dasa group only, there are approximately 300 initial patent applications per year.

Since 1998, DaimlerChrysler has been the official applicant of all Dasa intellectual property rights in the fields of defense and civil systems, military aircraft, satellites and space infrastructure. The Business Combination Agree-

ments provide that such intellectual property rights will be either transferred to or licensed to EADS Deutschland GmbH. In the commercial aircraft, helicopters, missiles and systems and aeroengine activities, the respective applicants are: DaimlerChrysler Aerospace Airbus GmbH, Eurocopter Deutschland GmbH, LFK-Lenkflugkörpersysteme GmbH and MTU Motoren- und Turbinen-Union München GmbH (the aeroengine activity is not contributed to EADS).

CASA

CASA's policy with respect to intellectual property is to limit cost and administrative effort to a level which provides adequate protection for those inventions considered essential for its products and processes. Thus, trademarks are registered for names of products (as well as CASA's name itself) and the most important processes are protected against competitors by patents.

EXCEPTIONAL ITEMS AND LITIGATION

Aerospatiale Matra, Dasa and CASA are involved in a number of claims and arbitrations that have arisen in the ordinary course of business. EADS believes that Aerospatiale Matra, Dasa and CASA have made adequate provisions to cover current or contemplated general and specific litigation risks. EADS is not aware of any pending or threatened legal or arbitration proceedings involving Aerospatiale Matra, Dasa or CASA that may have a material adverse effect on EADS' financial position except as stated below.

Dasa is party to several disputes and arbitration proceedings with the Dornier family, minority shareholders of Dornier GmbH. These proceedings concern primarily the validity of the resolutions of Shareholders' Meetings dealing with the contributions of the space infrastructure and satellite activities to Astrium GmbH (the former Dornier Satellitensysteme GmbH) and the guided missile activities to LFK-Lenkflugkörpersysteme GmbH. In addition, there is a dispute between certain shareholders of the Dornier family, on the one hand, and Dasa and Dornier GmbH, on the other hand, as to the validity of a shareholder resolution concerning the contribution by Dornier GmbH of its Dornier Luftfahrt GmbH shares to Fairchild Dornier Luftfahrt Beteiligungs GmbH. As of this date, no final decision in favor of the Dornier family shareholders has been made, and Dasa and Dornier GmbH believe they will prevail in their case at the end of all the proceedings. However, the German courts could cancel the disputed resolutions. Although Dasa believes that this is extremely unlikely, such decisions could result in the cancellation of the contributions. However, it cannot be excluded that such decisions may lead to a readjustment of the stakes of Dasa and Dornier GmbH in Dasa Dornier Raumfahrt Holding GmbH and in LFK-Lenkflugkörpersysteme GmbH. The possibility that such decisions would give the Dornier family a larger indirect interest in the space and guided missile activities of EADS cannot be excluded.

EMPLOYEES

Aerospatiale Matra

At December 31, 1999, Aerospatiale Matra's workforce amounted to 47,078 full-time equivalent employees. The table below shows Aerospatiale Matra's number of full-time equivalent employees by business sector, by type of activity, and by geographic area at December 31, 1997, 1998 and 1999. Employees of companies accounted for by the proportionate method (such as the Airbus and ATR consortia and Matra Bae Dynamics, Matra Marconi Space and Matra Nortel Communications) are included on the same proportionate basis.

	At December 31,		
	1997	1998	1999
Aerospatiale Matra employees by business sector:			
Aircraft			
Airbus	13,343	14,114	13,873
ATR.....	615	554	502
General aviation and aerostructures.....	767	766	881
Maintenance	3,712	3,575	3,607
Helicopters ⁽¹⁾	9,159	9,509	9,683
Total aircraft sector	<u>27,596</u>	<u>28,518</u>	<u>28,546</u>
Space			
M.M.S. ⁽²⁾	4,954	4,495	1,980
Aerospatiale Matra Lanceurs.....	5,015	3,973	3,735
Total space sector	<u>9,969</u>	<u>8,468</u>	<u>5,715</u>
Missile systems			
M.B.D	3,071	3,015	2,886
Aerospatiale Matra Missiles.....	3,758	3,446	3,213
Total missile sector	<u>6,829</u>	<u>6,461</u>	<u>6,099</u>
Telecommunications and information systems.....	<u>5,460</u>	<u>5,112</u>	<u>5,936</u>
Central services	718	710	782
Total	<u>50,572</u>	<u>49,269</u>	<u>47,078</u>
Aerospatiale Matra employees by type of activity:			
Management and engineers.....	15,807	15,178	15,652
Technicians and Administrative employees.....	23,360	22,717	21,611
Manufacturing employees	7,283	7,254	7,553
Others	4,122	4,120	2,262
Total	<u>50,572</u>	<u>49,269</u>	<u>47,078</u>
Aerospatiale Matra employees by geographic area:			
France	40,797	40,190	39,293
Rest of Europe	7,665	7,093	5,807
United States	1,507	1,330	1,339
Others	603	656	639
Total	<u>50,572</u>	<u>49,269</u>	<u>47,078</u>

(1) 100% Eurocopter including Eurocopter employees consolidated in Dasa at 40%.

(2) 100% in 1997 and 1998 and 50% in 1999

The five principal national labor unions in France are represented in the majority of Aerospatiale Matra's sites. As required by French law, the management of each legal entity holds regular meetings with employee representatives in order to negotiate salaries and working conditions. Working time for employees has progressively been reduced to 35 hours a week by collective bargaining agreements taking into account the specific conditions of each company. Aerospatiale Matra's employees are mainly covered by the metallurgical industry's collective bargaining agreements in France as well as certain company-specific complementary regimes. Aerospatiale Matra believes relations with employees to be good, in part as a result of a long-standing policy of dialogue and transparency. Aerospatiale Matra has not experienced a significant labor disturbance since 1980.

Dasa

At December 31, 1999, Dasa's workforce comprised 37,432 employees (based on the active headcount method and excluding the employees related to Dasa Excluded Assets). The table below shows the number of Dasa employees by business sector and type of activity at each of December 31, 1997, 1998 and 1999 (with the same scope).

	At December 31,		
	1997	1998	1999
Dasa employees by business sector:			
Airbus	13,907	14,449	15,120
Military Aircraft	6,058	6,511	6,785
Eurocopter ⁽¹⁾	3,757	3,979	3,954
Space	3,318	3,358	3,371
Defense and Civil Systems	8,302	8,660	7,829
Headquarters	381	378	373
Total	<u>35,723</u>	<u>37,335</u>	<u>37,432</u>
Dasa employees by type of activity:			
Blue collar	10,746	11,599	11,860
White collar	24,977	25,736	25,572
Total	<u>35,723</u>	<u>37,335</u>	<u>37,432</u>

(1) Eurocopter employees consolidated in Dasa at 40%

Dasa and the companies in its group are members of the regional employers' associations of the metal processing industry. The most important trade union represented in the Dasa group is the Metalworkers Union (*Industriegewerkschaft Metall*), which is organized in the German Trade Unions Federation (*Deutscher Gewerkschaftsbund*). Another represented trade union is the German White Collar Workers Union (*Deutsche Angestelltengewerkschaft*). The companies in the Dasa group are covered by the regional areawide collective agreements negotiated and concluded between the employers' associations of the metal processing industry and the Metalworkers' Union and/or German White Collar Workers Union.

In 1998 a new pension scheme for the Dasa group was introduced, harmonizing the various different schemes within the group. Dasa employees are entitled to draw a company pension upon retirement, the entitlement of each individual depending on the person's earnings, the number of years he or she has served in the company and a basic value of the company pension.

CASA

On December 31, 1999, CASA's workforce amounted to 7,430 employees (based on the active headcount method). The table below shows CASA's number of employees by business sector and by type of activity on December 31, 1997, December 31, 1998 and December 31, 1999. All of CASA's employees are located in Spain.

	At December 31,		
	1997	1998	1999
CASA employees by business sector:			
Manufacturing			
Structural manufacturing	25	17	19
Composites Illescas	83	89	83
Getafe manufacturing	1,968	1,795	1,782
Tablada manufacturing	1,280	1,193	1,121
Cádiz manufacturing	856	812	804
San Pablo manufacturing	655	645	706
Subcontracting	—	—	—
Sales			
Madrid	201	212	223
Sevilla	97	117	117
Head Office	732	763	755
Maintenance			
Maintenance division	12	—	—
Aircraft maintenance	424	429	433
Projects and Systems			
San Pablo	13	—	—
Getafe	977	957	967
Operations	—	36	39
Space Division (Barajas)	372	371	381
Total	<u>7,695</u>	<u>7,436</u>	<u>7,430</u>
CASA employees by type of activity:			
Directors	162	174	161
Senior management	1,592	1,585	1,660
Middle management (technicians and administrative)	1,259	1,237	1,214
Employees (technicians and administrative)	1,555	1,487	1,480
Workers	3,043	2,875	2,843
Auxiliary staff	84	78	72
Total	<u>7,695</u>	<u>7,436</u>	<u>7,430</u>

CASA's personnel policy aims to promote cooperation between staff with a view to strengthening teamwork and creating a positive working environment. The professional development of all staff is encouraged and is considered essential to the development and improvement of CASA. Management strives to provide clear objectives and assign specific tasks to each employee, who is given recognition for the manner in which responsibilities are carried out. Staff performance is evaluated primarily in terms of efficiency and productivity, although CASA's remuneration policy also acknowledges qualifications, experience and professional ability. The remuneration policy is intended to be flexible, incentivizing and linked to the overall performance of the company.

There is a very stable and open relationship between management and employee representatives, with the opinions and decisions of employee representatives (principally through works councils and trade union sections) significantly influencing management.

EADS

In addition to the existing national employee's representation structures, EADS will set up a European works council to ensure a continuous social dialogue with representatives of the employees of the EADS group.

To ensure the highest level of management training, a "corporate business academy" will be founded. Based on the long experience of cooperation in management training, the academy will support integration, develop management and leadership skills and support the strategy of the Company. EADS will continue to invest significant resources in training and education programmes to develop and ensure its leading position and technical excellence.

RESEARCH AND DEVELOPMENT

EADS

The research and development programs established by Aerospatiale Matra, Dasa and CASA will be integrated and consolidated within EADS in order to improve the Company's technological capacities in the aircraft, space, missile systems and telecommunications industries. The program of rationalization throughout the EADS group will avoid unnecessary duplication of research and development activity.

The integration will bring about enhanced performance and thus lead to increased profitability in that:

- EADS Research & Technology ("R&T") projects will be performed by the various business units as well as Central R&T Centers (CRTCs), in a R&T network to guarantee optimal leveraging;
- this R&T network will focus on complementarities issues and major, ground-breaking projects; and
- it will work alongside national public research networks, such as research institutes and universities on a project by project basis.

EADS research and development activities will be focused on specialized technologies which cannot easily be licensed or purchased on the market.

The French, German and Spanish EADS R&T networks will serve both national and international customers in providing solutions in terms of both defense and civil research activities.

Aerospatiale Matra

Aerospatiale Matra believes that its strategy and organization in the field of research and development activities are key competitive advantages. The research and development activities are based on two essential principles: (1) granting to each business unit both full responsibility at the product level in order to remain as close as possible to individual markets and customers' needs and allowing the individual units a large degree of autonomy in establishing research programs to suit their individual products; and (2) the coordination of research among the different business units of the group through the R&T network, which allows the circulation and exchange of information and research results within the group. An R&T Network steering committee and an R&T research committee consisting of the R&T representatives at both business unit and group level have the role of coordinating joint working teams of business unit experts in around twenty fields such as materials, electronics, propulsion energy, aerodynamics, fly control, image processing, information technology. This Research and Technology Group acts as an interface between the R&T research committee and the operational teams of the various business units.

Aerospatiale Matra also has a central research facility (*Centre Commun de Recherche*) organized in the form of a *groupement d'intérêt économique* (GIE). This laboratory is one of the members of the R&T Network.

Aerospatiale Matra's R&D activities employ more than 10,000 engineers and scientists, of whom 4,000 work part or full-time in R&T, which is the part of R&D dedicated to technological innovation applied to industrial products, based mainly at the facilities of Bois d'Arcy, Bourges, Bordeaux, Châtillon, Marignane, Les Mureaux, Toulouse and Vélizy, as well as at the central research facility in Suresnes near Paris which employs 300 researchers.

The following table shows Aerospatiale Matra's internally-financed R&D expenses for the years 1997, 1998 and 1999 (IAS basis).

	Year ended December 31,		
	1997	1998	1999
	(Euro millions)		
Internally-financed R&D	644	655	689

Dasa

Dasa possesses the necessary core skills and resources to meet the demands of present and future markets. Those core abilities in R&D that focus on strategic requirements and market value and can be exploited at competitive cost are concentrated internally. Other less cost competitive skills are derived from partnerships with third parties. The R&T work, valued at approximately Euro 47 million annually, currently performed by the DaimlerChrysler Corporate Research and Technology Division for the Dasa business units, will be from Completion onwards within the responsibility of EADS Deutschland GmbH. German sites of the Corporate EADS R&T will be in

Munich-Ottobrunn and Ulm. EADS has entered into a long-term cooperation agreement with DaimlerChrysler Corporate Research and Technology Division to ensure EADS' access to its competence and expertise.

The Dasa R&D strategy is based on a strong commitment to offer state-of-the-art answers to the customers' needs thereby responding to key buying factors of the respective market segments. Managed by an internal R&T network, individual research needs of the business units are handled by cross sectorial research work. Thus the momentum of the research work is increased and cross fertilization of the business units with the latest technologies is ensured in areas such as Software Technology, IT Process Support for Engineering and Manufacturing, Cabin- and Passenger Systems, High Frequency Technology, Microsystems-Technology, Acoustics, Materials-, Structures- and Manufacturing Technologies etc. thus making optimum use of the research funds and skills. In addition, Dasa R&T benefits from a well-established national research network formed with various notional research establishments and universities as well as from a highly qualified supplier base.

Dasa R&D activities are carried out by the Corporate Research and Technology Center, the decentralized technology competence centers of the business units, and by the corresponding development centers at their sites.

Approximately 11,700 Dasa employees work on R&D matters, 770 being full-time in technology at Dasa business units and 300 at the DaimlerChrysler Corporate Research and Technology Division (out of approximately 2,300 total corporate research staff).

In the years 1997, 1998 and 1999 Dasa had the following internally financed research and development expenses (IAS basis):

	<u>Year ended December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(Euro millions)		
Internally financed R&D	409	507	563

CASA

Technology occupies a special place within the overall strategy of CASA due to the importance given to competitiveness and customer satisfaction. CASA's organizational structure allows it to have centralized R&D units for design and engineering (*Dirección de Proyectos y Sistemas*) and for manufacturing processes (*Dirección de Ingeniería de Desarrollo de Producción*). These units provide full support to the different ongoing projects and product programs at minimum cost. Program needs are continually prioritized in order to ensure proper coordination of R&D activities.

One particular R&D unit coordinates the activities of all functional units and establishes CASA's technology plan. The technology plan supports the specific needs of each business unit, always taking into account emerging technologies which might affect present or future products and processes.

CASA dedicates 1,800 engineers and researchers to overall R&D activities, most of them at the Getafe facilities and the rest in the Space Division at the Barajas facilities, and 550 to specific R&D activities.

The following table shows CASA's internally financed R&D for the years 1997, 1998 and 1999 (IAS basis).

	<u>Year ended December 31,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(Euro millions)		
Internally-financed R&D	16	18	22

INSURANCE

EADS

The insurance management for the EADS group will be coordinated by an executive management team at EADS level. This team will be set up to consolidate and improve the insurance management system for the EADS group, including the harmonization of insurance coverage for the principal risks of EADS at EADS level, focusing on improved terms of insurance coverage and the reduction of premium rates.

Aerospatiale Matra

Aerospatiale Matra follows a strict policy of obtaining external insurance coverage to cover all risks that can be insured at reasonable rates. Current insurance covers property and business interruption, civil liability including risks related to environmental accidents, third party and passengers' liability (including product liability), damage to aircraft, as well as Directors' and officers' liability. The group also has a professional liability policy.

Total insurance costs for the year ended December 31, 1999 for Aerospatiale Matra were in the region of approximately Euro 35 million in addition to a share of premiums for Airbus Industrie consortium insurance policies amounting to around U.S.\$ 12 million.

In addition to insurance coverage, Aerospatiale Matra also promotes strict internal risk management and product integrity programs in the various business units of the group under the control of a dedicated headquarters team, including protection of plants through automatic fire detection and protection systems, specific studies for major programs and permanent implementation of quality procedures for products and their impact in case of potential legal claims.

Dasa

Dasa follows a strict policy of obtaining external insurance at competitive rates. Such insurance policies are related to the main risks of industrial entities and the specific exposures of the aerospace industry. These insurance policies cover all risks of loss or damage of property, business interruption and third-party liabilities, including environmental liability. Specific insurance policies are in place covering the risks arising out of ownership, operation and production of aerospace products. These policies include third-party liability relating to potential damage attributable to Dasa products.

Dasa's insurance coverage is reinforced by a vigorous risk management policy. This includes strict operating procedures and advanced monitoring and protection systems implemented at each of Dasa's sites. This risk management policy affords transparency of the corporate exposure and enables the Dasa group to take measures against risks and to reduce the consequences of insurable material losses to a calculable size.

CASA

CASA follows a strict policy of obtaining external insurance to cover identified risks at competitive rates.

Current insurance in CASA covers: all risk of damage to property, comprehensive liability (including environmental liability covering sudden but not gradual damage), hull aviation and hull war, aviation liability and directors' and officers' liability.

CASA has in place risk management and quality control programs designed to identify the risks involved in different industrial activities and in contracts with third parties prior to entering into those contracts. In addition, protection systems exist in all CASA facilities to reduce the impact of possible incidents.

In some cases (mainly in the military market) CASA has indemnification agreements.

ENVIRONMENTAL

EADS

EADS is aware of its environmental responsibility. Accordingly, EADS designs its environmental policy to ensure economic and environmental performance, long-term value creation and sustainability. An environmental management system is established to implement this policy within EADS.

EADS will continue the efforts of Aerospatiale Matra, Dasa and CASA for the protection of the environment considering that compliance with environmental legislation and regulation is a matter of course.

With regard to technical aspects, EADS endeavors to ensure that its products and processes are environmentally compatible utilizing the best available techniques as far as economically feasible.

Further research and development as well as investments in environmental protection are necessary to maintain and improve the performance of EADS in environmental technology, risk management and legal compliance.

Aerospatiale Matra

Aerospatiale Matra is subject to environmental laws and regulations in the countries in which it operates facilities, mainly France, Germany, the United Kingdom, the United States and other countries in Europe, Asia and Latin America.

These laws and regulations impose increasingly stringent environmental protection standards regarding air emissions, waste water discharges, the use or handling of hazardous waste or materials, and the remediation of environmental contamination.

In the countries in which it operates facilities, Aerospatiale Matra is subject to regulations regarding asbestos containing material (control, removal, employee exposure).

Aerospatiale Matra faces certain risks in the conduct of its activities, in particular, risks relating to environmental standards of disposed assets, former activities, product liability, damage or destruction of facilities, launch accidents and the consequences for satellites manufactured by Aerospatiale Matra, and occupational health and safety.

A number of Aerospatiale Matra's facilities are classified as "*installations classées*" (regulated sites) according to French law which requires the obtaining of an authorization as a precondition to operating new activities or modifying existing activities. Periodic administrative inspections are run.

Aerospatiale Matra aims to ensure that its products and operations are environmentally safe and comply with applicable laws and regulations (mainly in the fields of health and safety).

Aerospatiale Matra has a central management unit to oversee and harmonize its activities in this area. Management has created a written "Health, Safety and Environment" Charter to codify its practices and policies. Regular visits and inspections are conducted at the sites.

In addition, insurance is purchased for the insurable risks posed by Aerospatiale Matra's activities. See "— Insurance — Aerospatiale Matra."

Aerospatiale Matra devotes significant research and development efforts to finding environmentally safe alternatives to certain potentially harmful materials and industrial processes.

Aerospatiale Matra maintains liability insurance covering environmental risk at a level which it believes to be prudent and consistent with industry practice, but environmental matters cannot be predicted with certainty. Future changes in environmental laws and regulations or other developments could result in increased environmental costs and liabilities.

Aerospatiale Matra aims to anticipate changes in environmental fields through its research and development activities.

Dasa

Dasa operates a large number of facilities at its sites in Germany relevant to the environment and, consequently, must comply with a great variety of German environmental laws and regulations.

The German legislation sets very stringent standards for the protection of the environment, in particular for waste, air and noise emissions, waste water discharges, waste recycling and disposal, environmental risk management, remediation of contamination and safety of workers as well as for pollution prevention, control and monitoring.

Permits, authorizations or registrations of the competent authorities are required for the operation of numerous installations of Dasa. In addition, Dasa has subscribed for an environmental liability insurance policy in compliance with German environmental laws, which covers environmental contamination and damage arising from Dasa's activities.

In the period from 1992 to 1999, Dasa invested on average Euro 7 million per year in environmental protection facilities, utilizing the best available environmental techniques and anticipating requirements of foreseeable legislation as far as economically reasonable. Therefore, Dasa possesses a large number of environmentally compatible installations and state of the art processes.

In the future, similar levels of investments will be necessary in order to maintain Dasa's high standards in environmental protection, legal compliance and environmental technology.

Over the last twenty years suspected contaminations by Dasa of soil and groundwater have been investigated resulting in clean-up operations in agreement with the competent authorities. The bulk of this clean-up is now complete. The costs expected to finalize this clean-up are estimated at Euro 2 million.

Responsibility for Dasa's environmental management system falls to a member of the executive management of the company, the business units and to the subsidiaries respectively and to the plant managers; in addition to these management levels, environmental advisors are responsible for the coordination, controlling and reporting of environmental affairs. Besides this, Dasa has established an environmental policy and a number of internal rules to ensure that environmental concerns are taken into account in its processes and activities. Based on this management system, Dasa's first plant has recently been audited and certified as conforming to the EU Eco Audit Regulation and ISO 14001.

CASA

CASA is subject to environmental laws and regulations in Spain, including European Union directives on environmental protection governing, *inter alia*, air emissions, waste water discharge and solid and hazardous waste disposal. CASA possesses all environmental licenses and permits necessary to run its business, none of which are subject to any conditions or restrictions other than permitted levels of waste or emissions.

CASA management believes that all of its operations are substantially in compliance with environmental laws and regulations and is currently awaiting the results of an external audit undertaken with a view to obtaining ISO 14000 certification for one of its divisions. CASA is not involved in any legal proceedings concerning environmental matters and is not aware of any potential claims or liability which could have a material adverse impact on CASA's financial condition or results of operation, except in relation to possible soil contamination at the San Pablo factory.

CASA has in place internal procedures which enable it to monitor and control levels of waste and emissions, effectively manage waste disposal, as well as identify and prevent environmental risks.

CASA's management policy includes measures to ensure environmental compliance as well as occupational health and safety. These are coordinated and implemented by CASA's Prevention Service. CASA carefully studies proposed changes in environmental regulation with a view to incorporating these in its environmental plans.

In recent years, CASA has invested in finding environmental solutions and improving the use of its resources. This has resulted in a decrease in consumption and waste generation as well as greater recycling of materials. CASA has also taken part in various government campaigns to increase environmental awareness among employees and the general public.

RECENT DEVELOPMENTS AND OUTLOOK

Recent Developments

Airbus Integrated Company

On June 23, 2000 the EADS founding partners and BAE SYSTEMS announced the combination of their respective Airbus activities in Airbus Integrated Company ("AIC"), a *société par actions simplifiée* (S.A.S.) registered in France. Under the combination agreement, the parties will transfer all of the Airbus-related design, engineering and manufacturing assets located in France, Germany, Spain and the United Kingdom to AIC, which transfer is expected to be completed on January 1, 2001. Management expects that AIC will employ approximately 40,000 people in these countries.

EADS, through its 80% interest in AIC, will have effective management control over its operations, while BAE SYSTEMS will enjoy specific minority rights. Certain strategic decisions, such as acquisitions and divestitures valued at more than U.S.\$500 million, approval of the three-year Business Plan (but not the annual budgets or the launch of new programs) as well as actions which would dilute the ownership interest of BAE SYSTEMS in AIC, will require unanimous agreement.

BAE SYSTEMS has been granted an option to sell its AIC shares at open market value to EADS, either for cash consideration or in exchange for EADS shares, at EADS' discretion, except that BAE SYSTEMS may elect for cash where the issue of EADS shares would require prior burdensome regulatory authorizations impacting significantly the allocation of the EADS shares. This put option can only be exercised, during the initial three-year period, in the event that BAE SYSTEMS disagrees with certain strategic decisions and thereafter is exercisable without cause. EADS benefits from a call option at open market value on these shares in case of a change of control over BAE SYSTEMS. Likewise, BAE SYSTEMS can require EADS to purchase its AIC shares at open market value in the event of a change in control of BAE SYSTEMS or EADS.

From January 1, 2003, BAE SYSTEMS will receive enhanced dividends, subject to deliveries of A340-500/600 aircraft exceeding an agreed target rate. The enhanced dividends, which will be indexed to AIC's future growth, could represent a non-indexed value from zero up to a cap of Euro 237.5 million (based on current economic conditions) over a ten-year period (from January 1, 2003).

Shareholder and strategic matters relating to AIC will be decided by a Shareholder Committee, to which EADS will appoint five members and BAE SYSTEMS two members. Mr. Rainer Hertrich, CEO of EADS, will be the first chairman of the Shareholder Committee. Mr. Noël Forgeard, as first Chief Executive Officer of AIC, will be responsible for the operational management of the AIC business, together with the Executive Committee, consisting of up to ten members, two of which will be members proposed by BAE SYSTEMS, all of them agreed by the CEO of AIC and appointed by the Shareholder Committee.

AIC will be an integrated organization under the day-to-day control of a single management team, with the objective of delivering customer satisfaction, improved operating performance and enhanced shareholder value.

Management expects that the AIC shareholders will benefit from efficiencies and savings achieved by removing duplication of resources and investments and cutting overhead costs, concentrating research and development, and taking advantage of increased purchasing power. For AIC, Management has set itself a target of recurring annual savings resulting from synergies of approximately Euro 350 million from 2004. Management believes that AIC will further enhance Airbus' competitive position by benefiting customers through a fully integrated customer service support organization, and by providing critical mass to fund new programs internally.

Based upon unaudited pro forma financial information reflecting AIC's assumed scope of activity and excluding the accounting consequences of the formation of the EADS group, AIC would have had an operating profit in 1999 of Euro 1 billion from revenues of Euro 15.7 billion, and for 1999 would have been the second largest manufacturer of commercial aircraft with the highest number of orders in the world.

AIC's primary strategic objective will be to increase its competitiveness and outperform its competitor in the interests of shareholders, customers and employees, building on its market-leading technologies and products.

Memorandum of Understanding between EADS and Finmeccanica

On April 14, 2000, EADS and Finmeccanica signed a Memorandum of Understanding which establishes the framework for their continued negotiation to create a joint venture company in the field of military and certain civil aircraft activities. This agreement provides that EADS and Finmeccanica will negotiate on an exclusive basis until December 31, 2000 with the objective of finalizing the formation of the joint venture company by such date.

As currently contemplated, this joint venture company would initially involve 50% shareholdings by each of EADS and Finmeccanica, which will contribute assets and activities to the joint venture company. Finmeccanica would contribute all of its subsidiary Alenia Aeronautica's military and civil aircraft activities, including (1) fighter

aircraft, (2) heavy unmanned aerial vehicles (UAVs), (3) military transport aircraft, (4) mission aircraft, (5) military aircraft maintenance and conversion, and (6) aerostructures. The combination of these Alenia activities with the combat and training aircraft activities of both Dasa and CASA, as well as mission aircraft and certain aerostructures activities conducted by Dasa, should allow for operational efficiencies. Chief among these would be that the joint venture company would become the majority shareholder (67%) of the Eurofighter program.

Corporate governance responsibilities for the joint venture company are expected to be divided evenly between EADS and Finmeccanica. Based on 1999 pro forma information, the joint venture company had combined revenues of approximately Euro 2.5 billion and had approximately 17,000 employees.

In addition, Finmeccanica would be given the opportunity to acquire a shareholding of up to 5% in the Airbus Integrated Company. In connection with its Airbus shareholding, Finmeccanica would receive a workshare in the Airbus production process equivalent to its participation. Finmeccanica would also be given the opportunity to participate as a 10% risk partner in the development and production of the Airbus A3XX.

Decisions of the British Government related to the A400M military transport aircraft and the Meteor air to air intercept missile

On May 16, 2000, the British Government announced its intention to acquire from European industry the following equipment:

- *A400M.* The British Government has chosen to acquire 25 A400M military transport aircraft, a project designed to respond to the Future Large Aircraft specifications defined by seven European nations to satisfy their heavy airlift requirements. The A400M will replace their aging fleets of C-130 Hercules and C-160 Transall aircraft. Subsequently, Germany and France have announced their intention to purchase the A400M, so that all seven European partner nations have expressed their intentions to purchase the A400M. As a result of these developments, the A400M program has passed an important threshold, making its launch a strong probability.
- *Meteor.* Following an international invitation to tender, the British Government chose the Meteor air to air intercept missile to equip its Eurofighter combat aircraft. This decision is very significant, since it enables Meteor to be placed on the Eurofighter platform, to implement marketing synergies for the sale of this combat aircraft and its missile systems and to optimize the chances for exporting the Eurofighter.

The adaptation of Meteor on the Eurofighter thus opens for Matra BAE Dynamics, a joint venture held in equal parts by EADS and BAE SYSTEMS, a market estimated at Euro 8 billion over 20 years in Europe and for export, excluding the United States. Provided a cooperation agreement to integrate the Meteor on Boeing platforms such as the F/A-18 is implemented, the overall market could include the United States, which would bring the overall estimated market to approximately Euro 15 billion over 20 years. The Meteor is also designed to be carried by the Rafale and the Gripen.

Management believes that the British Government's choice of the A400M and Meteor vindicates the formation of EADS and the consolidation of important elements of the European aerospace and defense industries within it.

Forecasts for the market launch of the A3XX Airbus

Recent declarations of intent by several potential customers are corroborating EADS' expectation and its ongoing analysis that a viable market exists for the A3XX family of ultra-large aircraft. Emirates, the airline company of the United Arab Emirates, declared that it would be willing to acquire up to 10 A3XX aircraft, including 5 with firm orders. Singapore Airlines is currently discussing the initial purchase of 16 A3XX aircraft, including 10 firm orders and 6 options. More recently, Air France, the U.S. based ILFC (International Lease Finance Corporation) and Virgin Atlantic of the United Kingdom have expressed an interest in this program. In addition, the Australian airline QANTAS announced its interest in acquiring up to ten A3XX aircraft, which could be delivered between 2006 and 2010.

Based on these declarations of intent and the analysis of the quality of the potential customer base, Management announced on June 23, 2000 that Airbus Industrie had been granted Authorization to Offer the A3XX ("ATO"), marking its commercial launch. Following ATO, Airbus Industrie may enter into binding letters of intent with purchasers of the A3XX. Management expects that ATO will provide the impetus to translate the declarations of intent and expressions of interest received thus far into firm offers to purchase the A3XX. In addition, Management expects that the industrial launch will occur by the end of 2000, so that the first A3XX deliveries could occur before the end of 2005.

The cost of developing this program, which Management estimates at U.S.\$10.7 billion, covers both R&D expenses and tooling for the four versions of the A3XX family. This estimate does not include certain infrastructure elements or general and administrative expenses.

Management presently intends to finance the program by:

- Maximizing contributions from risk-sharing partners and from vendor financing, expected to represent in excess of U.S.\$ 3 billion subject to the outcome of negotiations to be held to that end; and
- Obtaining refundable advances from governments within the limits set by relevant international agreements, estimated by Management at about U.S.\$ 2.5 billion under current assumptions.

Management expects that BAE SYSTEMS would contribute approximately U.S.\$ 1 billion of program funding in accordance with its shareholding. As a result, EADS' self-financed portion of the A3XX program could represent approximately U.S.\$ 4.2 billion.

Management has set itself a 20% pre-tax internal rate of return target for the launch of this program, together with a project break-even point of approximately 250 aircraft. The total market for ultra-large aircraft is estimated to be approximately 1,200 units to 2021.

The launch of the A3XX will respond to the increase of traffic in certain regions. The A3XX, which would be used on long/super long distance flights (notably hub to hub), will complement smaller aircraft models which are primarily used for short and medium range flights feeding hubs.

Assembly of the A3XX will take place in Toulouse, while interior furnishing and customization will be performed in Hamburg. The fuselage sections will be produced at the same sites in France and Germany as current Airbus aircraft. The wings will be produced at facilities in the United Kingdom, while the horizontal stabilizer and other parts will be produced in Spain. Some ten additional manufacturers have agreed to participate in the development and production of the A3XX as risk sharing partners.

Development of the NH90 helicopter

During the 2000 Berlin Air Show (ILA), a Memorandum of Understanding was signed among the four partner countries of the NH90 program (France, Germany, Italy, the Netherlands). Its purpose is to confirm the decisions for industrial implementation and serial production of the NH90.

On June 30, 2000, a contract for industrial implementation and production of a first firm lot of 243 helicopters plus 55 optional helicopters was signed between NAHEMA (NATO Helicopter Management Agency), the program company created by the four partner countries and NHI (NATO Helicopter Industries), a company held by the four manufacturers of the program (Eurocopter S.A., Eurocopter Deutschland GmbH, Agusta S.p.A. and Stork Fokker Aerostructures B.V.).

Exchange rate development

As a result of EADS' accounting treatment in respect of financial instruments used for hedging purposes (see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Exchange Rate Management Policy, and — Revenue and Cost Recognition"), the weakness of the Euro against the U.S. dollar since December 31, 1999 will continue to impact negatively the financial income of EADS when presented in accordance with IAS. However, this accounting treatment will not impact the Company's cash position and cash flows. See "Investment Considerations — Exposure to Foreign Currencies."

Outlook

In the short term, Management expects that the integration of EADS will consume certain resources and require focused management attention. Over the medium term, the integration of EADS should result in efficiencies and growth opportunities which will enable EADS to achieve the goals of the combination and also translate into improved results of operations. See "Business Description — Strategy."

Based on the current Airbus order backlog, Management expects that the Airbus Division will enjoy continued, consistent revenue growth over the short and medium term. In 1999 Airbus captured 55% of new orders for commercial passenger aircraft. Management believes that this favorable trend will continue and that Airbus in the future will enjoy increased market share in the commercial passenger aircraft market segment.

In addition, Management believes that the initial deliveries to be made under several major military programs pursuant to orders received, or expected very soon, such as the Tiger and NH90 helicopters, the Eurofighter, and the PAAM and Storm Shadow missiles, will favorably affect EADS' results of operations in the short to medium term. Management also believes that commencement of deliveries of the Rafale combat aircraft will support positively the value of EADS' investment in Dassault Aviation.

EADS' pro forma order backlog at the end of 1999 amounted to Euro 102 billion, which is equivalent to more than four years of activity. This backlog further reinforces Management's confidence in its ability to meet its medium term objective of enhancing profitability.

MANAGEMENT

Board of Directors, Chairmen and Chief Executive Officers

Pursuant to the Articles of Association of the Company (the “Articles of Association”), the Board of Directors is responsible for the affairs of the Company.

The Board of Directors consists of a maximum of eleven members appointed and removed by the shareholders’ meeting. The Board may adopt rules governing its internal affairs. Such rules (the “Rules”) were adopted at a Board meeting held on June 19, 2000. The parties to the Participation Agreement have agreed that the voting rights attached to the Indirect EADS Shares shall be exercised by EADS Participations B.V. to ensure that the Board of Directors of EADS comprises the Directors of EADS Participations B.V. and two additional independent Directors who have no connection with the DaimlerChrysler, SOGEPA or Lagardère groups or the French State. See “Principal and Selling Shareholders.” Pursuant to the Participation Agreement, the initial Board of Directors will comprise eleven members of whom:

- four will be nominated by SOGEADE,
- four will be nominated by DaimlerChrysler,
- one will be nominated by SEPI,
- two will be independent Directors, one to be nominated by SOGEADE and one to be nominated by DaimlerChrysler.

Pursuant to the Articles of Association, each Board member of the first Board of Directors will hold office for a term expiring at the annual general meeting of the Company to be held in 2005. Members of the Board will be elected at such meeting and at each fifth annual general meeting thereafter.

The general meeting of shareholders may at all times suspend or dismiss any member of the Board of Directors. There is no limitation on the number of terms that a Director may serve.

The initial Board of Directors shall appoint two Chairmen, one to be chosen from the DaimlerChrysler-nominated Directors and one to be chosen from the SOGEADE-nominated Directors.

The Chairmen will ensure the smooth functioning of the Board of Directors in particular with respect to its relations with the Chief Executive Officers whose efforts they will support with regard to top level strategic discussions with outside partners.

The Board of Directors will also appoint two Chief Executive Officers to be responsible for the day-to-day management of the Company, one to be chosen from the DaimlerChrysler-nominated Directors and one to be chosen from the SOGEADE-nominated Directors.

The Company is represented by the Board of Directors or by the two Chief Executive Officers acting jointly.

In the event of a deadlock between the two Chief Executive Officers, the matter shall be referred to the two Chairmen.

The Chief Executive Officers shall not enter into transactions which form part of the key responsibilities of the Board of Directors unless these transactions have been approved by the Board of Directors.

The key responsibilities of the Board of Directors include among others:

- approving any change in the nature and scope of the activities of the EADS group;
- approving the overall strategy and the strategic plan of the EADS group;
- approving the business plan and the yearly budget of the EADS group;
- setting the major performance targets of the EADS group;
- appointing the members of the Executive Committee;
- approving material changes to the organizational structure of the EADS group;
- approving major investments, projects or product decisions or divestments of the EADS group contemplated in the business plan with a value exceeding Euro 200 million;
- approving major strategic alliances and cooperations of the EADS group;
- approving any material decision affecting the ballistic missiles activity of the EADS group;

- approving matters of shareholder policy, major actions or major announcements to the capital markets;
- approving other measures and business of fundamental significance for the EADS group or which involve an abnormal level of risk.

Philippe Camus and Rainer Hertrich were appointed Directors by the general meeting of shareholders of EADS held on May 10, 2000 and Chief Executive Officers at the Board meeting held the same day. Jean-Luc Lagardère and Manfred Bischoff were appointed Directors by the general meeting of shareholders of EADS held on June 19, 2000 and their appointments became effective on July 7, 2000; they were appointed Chairmen at the Board meeting held on July 7, 2000.

Each Director shall have one vote, provided that if there is a vacancy on the Board in respect of a DaimlerChrysler-nominated Director or a SOGEADE-nominated Director, the DaimlerChrysler-nominated Directors being present or represented at the meeting can jointly exercise the same number of votes that the SOGEADE-nominated Directors who are present or represented at the meeting can exercise and vice versa. All decisions of the Board, except for CASA Matters, require a vote in favor by at least seven Directors voting in person or by proxy. A CASA Matter requires a vote in favor of at least seven Directors including the SEPI-nominated Director.

The quorum for the transaction of business at meetings of the Board of Directors requires the presence of at least one of the SOGEADE-nominated Directors and one of the DaimlerChrysler-nominated Directors unless a CASA Matter is to be decided in which case the SEPI-nominated Director must also be present or represented.

The special majority and quorum requirements in respect of CASA Matters shall end on the third anniversary of the date of the Completion or the date on which SEPI shall cease to hold any Indirect EADS Shares, whichever is earlier.

In the event of a deadlock in the Board of Directors, other than a deadlock giving DaimlerChrysler the right to exercise the put option granted to it by SOGEADE, the matter shall be referred to Jean-Luc Lagardère (or such person as shall be nominated by Lagardère) as representative of SOGEADE and to the Chief Executive Officer of DaimlerChrysler. See “Principal and Selling Shareholders — Relationships Among Principal Shareholders.” In the event that the matter in question, including a deadlock giving DaimlerChrysler the right to exercise the put option (but in this case with the agreement of SOGEPA and DaimlerChrysler) is a matter within the competence of the general meeting of EADS, a resolution on the issue shall be put to the general meeting, with the voting rights of SOGEADE, DaimlerChrysler and SEPI being negated.

Pursuant to the Rules, the Board of Directors is empowered to form committees from its members. In addition to the Audit Committee and the Personnel Committee, the Board may form other committees to which it may transfer certain minor or ancillary decision making functions although such transfer does not negate the joint responsibility of all Directors. The quorum for the transaction of business at any meeting of a committee shall be at least one Director appointed by SOGEADE and at least one Director appointed by DaimlerChrysler. All decisions of a committee require the simple majority of the members. If the business transacted at the meeting relates to CASA Matters the presence and the positive vote of the SEPI-nominated Director will also be required.

Audit Committee

The Audit Committee will, among other things, make recommendations to the Board of Directors on the appointment of auditors, the approval of the annual financial statements and the interim accounts and monitor the adequacy of the EADS group’s internal controls, accounting policies and financial reporting.

Personnel Committee

The Personnel Committee will, among other things, make recommendations to the Board of Directors regarding appointments to the Executive Committee, remuneration strategies and long-term remuneration plans and will decide the service contracts and other contractual matters in relation to the Board and Executive Committee members.

Composition of the Board of Directors

<u>Name</u>	<u>Age</u>	<u>Term expires</u>	<u>Principal Occupation</u>
Manfred Bischoff	58	2005	Member of Management Board of DaimlerChrysler
Jean-Luc Lagardère	72	2005	General and Managing Partner of Lagardère
Philippe Camus	52	2005	Chief Executive Officer of EADS
Rainer Hertrich	50	2005	Chief Executive Officer of EADS
Axel Arendt	50	2005	Chief Financial Officer of EADS
Eckhard Cordes	49	2005	Member of Management Board of DaimlerChrysler
Pedro Ferreras	45	2005	President of SEPI
Noël Forgeard	53	2005	Airbus Chief Executive Officer
Louis Gallois.....	56	2005	President of SNCF
Jean-René Fourtou.....	61	2005	Vice President of Aventis S.A.
Michael Rogowski.....	61	2005	Chairman of the Supervisory Board of J.M. Voith AG

Executive Committee

Pursuant to the Participation Agreement, the Rules provide that the Board of Directors will create a management committee consisting of the two Chief Executive Officers and, on the proposal of the Chief Executive Officers, the heads from time to time of the major and functional divisions of the EADS group (the “Executive Committee”).

The Chief Executive Officers, together with the Executive Committee, are responsible for managing the day-to-day operations of the Company.

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

- setting up and control of the implementation of the strategy for EADS businesses;
- management, organizational and legal structure of the EADS group; and
- performance levels of the EADS group’s businesses and support functions.

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

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

Pursuant to the internal rules adopted by the Executive Committee, the term of office for the Executive Committee members will be five years.

Composition of the Executive Committee

<u>Name</u>	<u>Age</u>	<u>Term expires</u>	<u>Principal Occupation</u>
Philippe Camus.....	52	2005	Chief Executive Officer
Rainer Hertrich.....	50	2005	Chief Executive Officer
Axel Arendt.....	50	2005	Chief Financial Officer
François Auque.....	44	2005	Head of Space Division
Thomas Enders.....	41	2005	Head of Defense and Civil Systems Division
Alberto Fernández.....	51	2005	Head of Military Transport Aircraft Division
Noël Forgeard.....	53	2005	Airbus Chief Executive Officer
Jean-Louis Gergorin.....	54	2005	Head of Strategic Coordination Unit
Jean-Paul Gut.....	39	2005	Head of Marketing Unit
Gustav Humbert.....	50	2005	Airbus Chief Operating Officer
Dietrich Russell.....	58	2005	Head of Aeronautics Division

Members of the Executive Committee

Philippe Camus was appointed Chief Executive Officer of EADS on May 10, 2000. Mr. Camus has been Chairman of the Aerospatiale Matra Management Board since December 1999. He joined the Lagardère group in 1982 as Director with the Senior Management, and Chairman of the Financial Committee of the Matra group. In May 1998, he was appointed General Partner and Co-Chief Executive Officer of Lagardère. Mr. Camus is a graduate from the *Ecole Normale Supérieure* and has a degree in Economics and Finance from the *Institut d'Etudes Politiques* in Paris. He also holds an *Agrégation* degree in Physics and an *Agrégation* degree in actuarial sciences.

Rainer Hertrich was appointed Chief Executive Officer of EADS on May 10, 2000. Since March 2000, Mr. Hertrich has been Chief Executive Officer of Dasa AG. Prior to this appointment, Mr. Hertrich was Head of the Aeroengines business unit of Dasa AG and Chief Executive Officer of MTU since January 1996, and Member of Dasa's Executive Committee since April 1996. Mr. Hertrich joined Messerschmitt-Bölkow-Blohm in 1977. After several appointments as Head of Controlling and Chief Financial Officer in divisions of MBB, he became Head of Controlling at Dasa AG in 1990. Mr. Hertrich studied economics at the Technical University of Berlin and the University of Nuremberg and holds a degree in economics.

Axel Arendt, Chief Financial Officer of EADS. Mr. Arendt has been Chief Financial Officer of Dasa AG since February 2000. He joined Daimler-Benz in 1979 as Human Resources Coordinator. After several management positions he was appointed President of Mercedes-Benz Argentina in 1994 and became President of Mercedes-Benz in Turkey in 1998. Mr. Arendt has a degree in mechanical engineering from the Technical University of Hanover. He completed post graduate studies in economics at the Technical University of Munich.

François Auque, head of the Space Division. Mr. Auque was appointed Aerospatiale Matra group Managing Director responsible for Space in January 2000. He joined the Group in 1991 as Corporate Vice President responsible for Finance and Economics. He has been Chief Financial Officer and Group Managing Director in charge of Satellites at Aerospatiale Matra since June 1999 and a Member of the Aerospatiale Matra Management Board since December 1999. Mr. Auque holds a degree from the *Ecole des Hautes Etudes Commerciales (HEC)*, the *Institut d'Etudes Politiques* of Paris and is a graduate of the French National School of Administration (*ENA*).

Thomas Enders, head of the Defense and Civil Systems Division. Mr. Enders has been Senior Vice President in charge of Corporate Development and Technology at Dasa since 1996. He joined Dasa AG in 1991 as a Member of the Corporate Concept and Study Group. Between 1992 and 1995, he was Assistant to the Director of Marketing and Vice President responsible for Marketing Strategy Europe. He then became General Secretary of Dasa AG. Mr. Enders is a graduate in economics, history and politics from the University of Bonn and from UCLA in California and holds a Doctorate.

Alberto Fernández, head of the Military Transport Aircraft Division. Mr. Fernández has been Chairman and Chief Executive Officer of CASA since July 1997. He joined CASA in 1973 where he has occupied the positions of Director of Production, Director of the Aircraft Division and Director of Programs. Between 1989 and 1997 he was senior Vice President responsible for Administration, Finance and Purchasing in Airbus Industrie and has been a member of the Supervisory Board of Airbus Industrie since July 1997. Mr. Fernández is a graduate from the Spanish Official School for Aeronautical Engineers (ETSIA).

Noël Forgeard, Chief Executive Officer of the Airbus Division. Mr. Forgeard has been Chief Executive Officer of Airbus Industrie since April 1998. Mr. Forgeard joined Matra in 1987 as Senior Vice-President of the Defense and

Space activities. In 1992, he was appointed Managing Director of Lagardère and Chief Executive Officer of Matra Hautes Technologies. Mr. Forgeard is a graduate of the *Ecole Polytechnique* and the *Ecole des Mines* in Paris.

Jean-Louis Gergorin, head of the Strategic Coordination Unit. Mr. Gergorin has been Managing Director, responsible for the Strategic Coordination of Aerospatiale Matra since June 1999. He joined Matra in 1984 as Director of Industrial and International Strategy. Since 1998, he has been Group Managing Director in charge of strategic coordination and the High-Tech Sector of Lagardère. Before joining Matra, he was Deputy Head and Head of the Policy Planning Staff (*CAP*) of the French Ministry of Foreign Affairs and a member of the French *Conseil d'Etat*. Mr. Gergorin is a graduate of the *Ecole Polytechnique* (Paris) and of the French National School of Administration (*ENA*).

Jean-Paul Gut, head of the marketing Unit. Mr. Gut has been Executive Chairman of Aerospatiale Matra Lagardère International and responsible at Aerospatiale Matra for Defense and Space Transport since June 1999. He joined Matra Defense in 1983 as responsible for the Export Division. In 1998, he became Managing Director in charge of the management of international affairs and the High Tech sector in the Lagardère Group. In January 2000, he was appointed Managing Director for Defense, Military Aircraft and Space Transport of Aerospatiale Matra. Mr. Gut graduated from the *Institut d'Etudes Politiques* of Paris and holds a Bachelor of Arts degree in Economics.

Gustav Humbert, Chief Operating Officer of the Airbus Division. Mr. Humbert has been a Member of the Dasa AG Management Board responsible for the Commercial Aircraft Division since 1998. Mr. Humbert joined Messerschmidt Bölkow Blohm in 1980. After several management positions he was appointed President and Chief Executive Officer of Daimler Benz Aerospace Airbus GmbH in 1994. Mr. Humbert holds a degree in mechanics and production technology at the Hanover Technical University and a Doctorate in engineering from the Department of Mechanical Engineering of the University of Hanover.

Dietrich Russell, head of the Aeronautics Division. Mr. Russell has been Chief Operating Officer of Airbus Industrie since April 1998. Mr. Russell joined Dasa AG in 1995 where he was appointed Member of the Board responsible for the Aircraft division. Mr. Russell graduated from the Departments of Economics and Civil Engineering and holds a Doctorate in Engineering from the Technical University RWTH of Aachen.

Interests of the Board Members

In the future compensation of EADS Directors as well as of members of the Executive Committee will be determined by the Personnel Committee.

The total remuneration paid to the members of the Board of Directors for the performance of their respective functions at Aerospatiale Matra, Dasa AG and CASA amounted to approximately Euro 4.4 million in 1999. This amount does not include compensation paid by third parties and not related to the performance of their functions at Aerospatiale Matra, Dasa AG and CASA, respectively.

The total remuneration paid to the members of the Executive Committee, some of whom will also serve as members of the Board of Directors for the performance of their respective functions at Aerospatiale Matra, Dasa AG and CASA, amounted to approximately Euro 6 million in 1999, of which Euro 2.3 million was performance-related pay.

As of the date of this offering memorandum, the members of the Board of Directors hold a total of 17 EADS shares, which have been substituted for their Aerospatiale Matra shares, and the members of the Executive Committee hold a total of 117 EADS shares, which have been substituted for their Aerospatiale Matra shares.

EADS has not granted any loans to its Directors or members of the Executive Committee.

Employee Profit Sharing and Incentive Plans

Currently, Aerospatiale Matra and Dasa have policies concerning profit sharing.

Aerospatiale Matra has profit sharing plans (*accords de participation*), in accordance with French law, and specific incentive plans (*accords d'intéressement*), which provide bonuses to employees based on the achievement of productivity, administrative or technical milestones. As of June 1999, 74% of its employees owned shares in Aerospatiale Matra representing 2.32% of the capital.

Dasa's management remuneration policy is to a large extent flexible and strongly linked to the operating profit of the company, the increase in value of the company and the achievement of individual objectives. The executive managers participate in DaimlerChrysler stock appreciation rights (SARs) Plans (the SARs are a bonus system calculated on the basis of the stock price of DaimlerChrysler). EADS is liable for these costs of Dasa.

CASA, which does not have a profit sharing policy, allows technicians and management to receive profit-related pay subject to the achievement of the general company objectives and individual performance.

Stock Option Plan

The Board of Directors of EADS approved the establishment of a stock option plan for the 11 members of the Executive Committee and senior managers of the Company. Stock options for the purchase of 5,214,884 EADS shares were granted on Completion, of which 720,000 were granted to the members of the Executive Committee. Approximately 850 employees of the Company 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 110% of the price to institutional investors in the global offering. The options may not be exercised during the period of three weeks prior to either the annual general meeting or the announcement of annual or semi-annual results or quarterly figures.

Employee Share Offering

As part of the global offering, EADS is offering to qualifying employees 1.5% of its total share capital after the global offering (assuming full exercise of the underwriters' over-allotment option and exercise in full of the employee stock options granted for the purchase of 5,214,884 Shares). This employee offering of up to 12,222,385 Shares includes an option allowing qualifying employees to leverage their investment in the Shares they purchase. Under this option, the investment consists of the amount paid plus an amount, resulting from a swap agreement of the investment management company for this option, that equals 9 times such amount paid. Qualifying employees are being offered Shares at the price for the retail offering, less a discount of approximately 15%.

The employee offering is open only to employees who:

- have at least three months' seniority;
- have French, German or Spanish employment contracts; and
- are employed by companies incorporated under French, German or Spanish law in which EADS holds (i) the majority of the share capital or (ii) at least 10% of the share capital, provided such minority-owned companies are designated as eligible by EADS.

Depending on whether the employee purchases Shares through a French, German or Spanish plan, a leveraged option or an investment fund, the employee is restricted from selling the Shares for one of the following lock-up periods: 18 months, 3 years, 5 years or 6 years. Shares will be delivered to employees on or before August 31, 2000.

PRINCIPAL AND SELLING SHAREHOLDERS

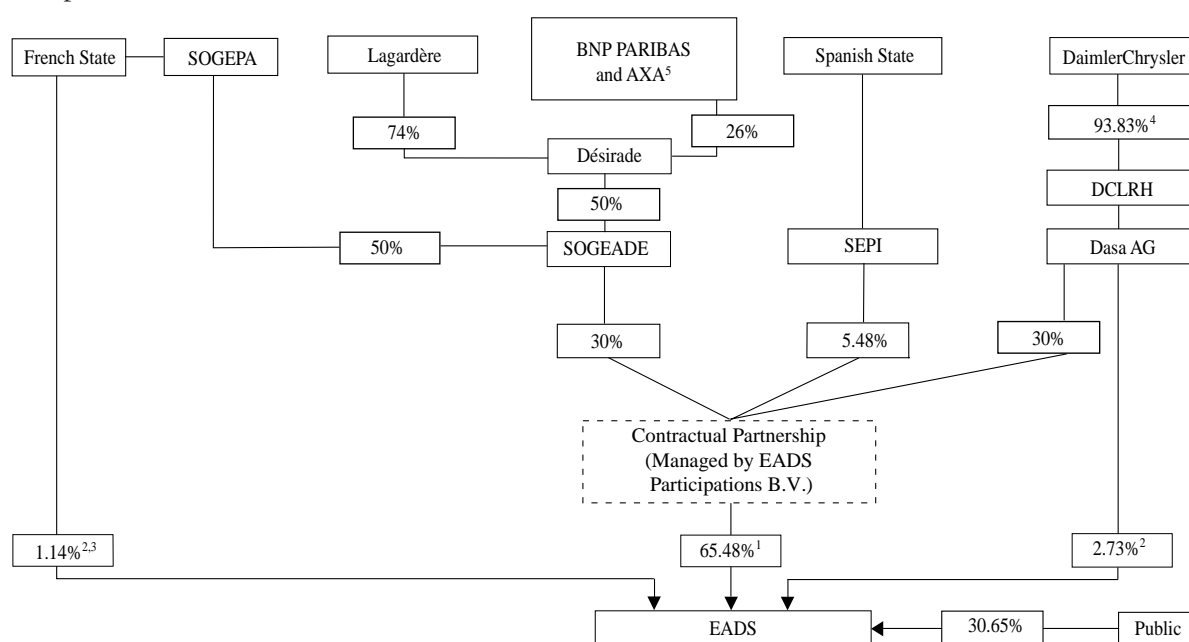
Unless the context requires otherwise, the shareholdings of Dasa AG in EADS are referred to in this offering memorandum as shareholdings of DaimlerChrysler, and the rights and obligations of Dasa AG pursuant to the agreements described herein are referred to as rights and obligations of DaimlerChrysler.

In this offering memorandum, the term “Indirect EADS Shares” relates to EADS shares to be held by SOGEADE, DaimlerChrysler and SEPI, for which EADS Participations B.V. will exercise all the attached voting rights, as well as, for Lagardère, SOGEPa and the French Financial Institutions (or the companies of their group), the number of EADS shares held indirectly via SOGEADE, reflecting by transparency, their respective interest in SOGEADE.

Current and Anticipated Shareholding of EADS

Following the Transactions and assuming full exercise of the underwriters’ over-allotment option, the issuance of 12,222,385 Shares in the employee offering and exercise in full of employee stock options granted for the purchase of 5,214,884 Shares (further described under “Management”), Lagardère, SOGEPa and the French Financial Institutions will together hold 30% of the share capital of EADS through SOGEADE. DaimlerChrysler will also hold 30% of the share capital of EADS. Therefore, 60% of the share capital of EADS will be held in equal proportions by SOGEADE and DaimlerChrysler who will jointly control EADS through the Contractual Partnership. SEPI, being a party to the Contractual Partnership, will hold 5.48% of the share capital of EADS. The public (including EADS employees) will hold directly 30.65% of the share capital of EADS. The French State and DaimlerChrysler will hold directly, respectively, 1.14% and 2.73% of the share capital of EADS, such shareholdings being subject to certain specific provisions.

The diagram below shows the ownership structure of EADS following the Transactions (based on the above-stated assumptions).



- (1) EADS Participations B.V. will exercise the voting rights attaching to these EADS shares pledged by SOGEADE, DaimlerChrysler and SEPI who will retain title to their respective shares.
- (2) The French State and DaimlerChrysler will exercise the voting rights attaching to these EADS shares (in the case of the French State such shares being placed with *Caisse des Dépôts et Consignations*) in the same way that EADS Participations B.V. will exercise the voting rights pooled in the Contractual Partnership.
- (3) Shares to be distributed without payment of consideration by the French State to certain former shareholders of Aerospatiale Matra as a result of the privatization of Aerospatiale Matra in June 1999.
- (4) Almost all the balance is held by the City of Hamburg.
- (5) Acting through a jointly organized company, Istroise de Participations.

The table below shows the ownership structure of EADS giving effect to (1) the Completion followed by (2) the global offering without exercise of the over-allotment option, (3) the global offering with full exercise of the over-allotment option and (4) exercise of employee stock options further described under “Management.”

<u>Shareholders</u>	<u>Post-Completion Pre-Global Offering</u>	<u>Post-Global Offering Pre-Over- Allotment Option</u>	<u>Post-Over- Allotment Option Pre-exercise of stock option</u>	<u>Post-exercise of stock option Fully diluted</u>
	(Percentage ownership)			
Contractual				
Partnership	74.62	66.07	65.90	65.48
SOGEADE	34.19	30.27	30.19	30.00
Dasa AG	34.19	30.27	30.19	30.00
SEPI	6.24	5.53	5.52	5.48
French State	5.38	1.52	1.15	1.14
Lagardère (including MCP).....	1.71	0.16 ⁽¹⁾	—	—
French Financial Institutions				
(BNP PARIBAS and AXA, acting through Istroise de Participations).....	4.27	1.91 ⁽¹⁾	—	—
Dasa AG	3.11	2.75	2.75	2.73
Public (including employees).....	<u>10.91</u>	<u>27.59</u>	<u>30.20</u>	<u>30.65</u>
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

(1) For a description of the undertaking of Lagardère to purchase from the French Financial Institutions any EADS Shares that they would hold as a result of an incomplete exercise of the over-allotment option, see “Principal and Selling Shareholders — Relationships Among Principal Shareholders — Transfer of EADS Shares.”

Relationships Among Principal Shareholders

The principal agreements governing the relationships among the founders of EADS are an agreement (the “Participation Agreement”) entered into on Completion among DaimlerChrysler, Dasa AG, Lagardère, SOGEP, SOGEADE and SEPI, and a Dutch law Contractual Partnership agreement entered into on Completion among SOGEADE, Dasa AG, SEPI and EADS Participations B.V. (the “Contractual Partnership Agreement”), which repeats certain terms of the Participation Agreement and a certain number of other agreements (notably, a shareholder agreement (the “SOGEADE Shareholders’ Agreement”) entered into on Completion between SOGEP and Lagardère and an agreement among the French State, DaimlerChrysler and DCLR). EADS Participations B.V. is a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) and is the managing partner of the Contractual Partnership. The Indirect EADS Shares held by SOGEADE, DaimlerChrysler and SEPI have been pledged to EADS Participations B.V., which has been granted the exclusive power to exercise the voting rights attaching to the pledged shares (including the right to attend and speak at shareholders’ meetings) in accordance with the Contractual Partnership Agreement.

The agreements above contain, among other things, provisions relating to the following matters:

- the composition of the Boards of Directors of EADS, EADS Participations B.V. and SOGEADE Gérance (general and managing partner (*gérant commandité*) of SOGEADE);
- restrictions on the transfer of EADS shares and SOGEADE shares;
- pre-emptive and tag-along rights of DaimlerChrysler, SOGEADE, SOGEP and Lagardère;
- defenses against hostile third parties;
- consequences of a change of control of DaimlerChrysler, SOGEADE, Lagardère, SOGEP or SEPI;
- a put option granted by SOGEADE to DaimlerChrysler over its EADS shares in certain circumstances;
- specific rights of the French State in relation to certain strategic decisions, regarding among other issues, EADS ballistic missiles activity; and
- certain limitations on the extent of the French State’s ownership of EADS.

One of the purposes of these provisions is to establish a stable group of controlling shareholders for a period of at least three years following the Completion.

Organization of EADS Participations B.V.

The Board of EADS Participations B.V. has an equal number of Directors nominated by DaimlerChrysler and by SOGEADE respectively (taking into account proposals made by Lagardère in respect of the SOGEADE-nominated Directors) and one Director nominated by SEPI. DaimlerChrysler and SOGEADE each nominate four Directors, unless otherwise agreed, and each nominates from among its nominated Directors a Chairman and a Chief Executive Officer. SEPI will — until the third anniversary of the Completion or the date on which SEPI ceases to hold any Indirect EADS Shares, whichever is earlier — nominate one Director to the board of EADS Participations B.V. for a term of appointment ending on or before the third anniversary of the Completion or the date on which SEPI ceases to hold any Indirect EADS Shares, whichever is earlier.

This structure gives DaimlerChrysler and SOGEADE equal nominating rights to the majority of the Directors of the decision-making body of EADS Participations B.V. All decisions of EADS Participations B.V.'s Board of Directors shall require the vote in favor of at least six Directors, except for certain specified matters which require the prior unanimous approval of DaimlerChrysler and SOGEADE. Until the third anniversary of the Completion (or the date on which SEPI ceases to hold any Indirect EADS Shares, whichever is earlier), the SEPI nominated Director will be able to block any decisions in the EADS Participations B.V.'s Board of Directors relating to any major change to the CASA Industrial Plan and/or its implementation.

Transfer of EADS Shares

During the period commencing on the Completion and ending on July 1, 2003 (the “Standstill Period”):

- DaimlerChrysler, SOGEADE, SEPI, Lagardère, SOGEPA and the French State shall not, in principle, purchase any EADS shares;
- DaimlerChrysler, Lagardère and the French Financial Institutions shall not sell any Indirect EADS Shares;
- The French State, Lagardère and the French Financial Institutions shall be obliged to sell all of their EADS shares other than their Indirect EADS Shares (and, in the case of the French State, other than the EADS shares to be distributed to former shareholders of Aerospatiale Matra — see “— Specific Rights and Undertakings of the French State”), either via the global offering or, if so agreed by the French State, DaimlerChrysler and Lagardère, within the 18 month period following the global offering; in the case of the French Financial Institutions, such obligation only applies to EADS shares purchased by them from the French State on Completion;
- If the French Financial Institutions hold EADS shares (other than their Indirect EADS Shares) because of the incomplete exercise by the underwriters of their over-allotment option, Lagardère shall purchase those EADS shares from the French Financial Institutions at the end of the exercise period of the over-allotment option at the price at which the French Financial Institutions will themselves have purchased such shares;
- If the French State or Lagardère holds EADS shares as a result of the incomplete exercise by the underwriters of their over-allotment option or if Lagardère purchases EADS shares from the French Financial Institutions in accordance with the previous paragraph, such EADS shares shall be sold by the French State and Lagardère on the market within eighteen (18) months of the date of the global offering;
- SOGEPA and SEPI shall have the right (but not the obligation) to sell their Indirect EADS Shares on the market. In the event that the French State or Lagardère proposes to make a sale of EADS Shares pursuant to the previous paragraph at the same time as the proposed sale by SOGEPA or SEPI, the sales shall be coordinated between the French State or Lagardère (as the case may be) and SOGEPA or SEPI (as the case may be) in such a way that it shall be avoided that the French State or Lagardère (as the case may be) will suffer a negative impact on the sale;
- SEPI shall also have the right to sell all or part of its Indirect EADS Shares by way of a block sale to a third party, subject to a pre-emption right in favor of DaimlerChrysler and SOGEADE in the respective proportions which the number of their Indirect EADS Shares bear to one another, unless the proposed sale is made to a Spanish private investor (other than a competitor of EADS, DaimlerChrysler or SOGEADE) and, where the proposed sale is to a competitor of EADS, DaimlerChrysler or SOGEADE, subject to the prior written consent of, respectively, DaimlerChrysler and SOGEADE, SOGEADE or DaimlerChrysler. It is the intention of SEPI (which has no obligation to do so) to sell its Indirect EADS Shares within the three years following the Completion. SEPI shall lose its main rights and liabilities under the Participation Agreement and the Contractual Partnership Agreement immediately upon it ceasing to have any Indirect EADS Shares;

- The EADS shares held by DaimlerChrysler after the global offering (other than its Indirect EADS Shares) may be sold on the market. However, any sale of such shares on the market during the Standstill Period will have to be coordinated with SOGEPA, the French State, Lagardère and SEPI if SOGEPA, the French State, Lagardère or SEPI proceed with the sale of EADS shares during the same period. In such case, SOGEPA, the French State, Lagardère or SEPI may request DaimlerChrysler to defer such sales if, in the reasonable opinion of SOGEPA, the French State, Lagardère or SEPI, they would have an adverse effect on the sales which SOGEPA, the French State, Lagardère or SEPI would make at that time.

After the Standstill Period, each of DaimlerChrysler, SOGEADE, SEPI, Lagardère, SOGEPA and the French Financial Institutions shall have the right to sell their EADS shares on the market, subject to the following conditions:

- if a party wishes to sell any EADS shares, it shall first sell its EADS shares other than its Indirect EADS Shares before exercising its right to sell its Indirect EADS Shares in accordance with the provisions set out below;
- on the sale of Indirect EADS Shares, DaimlerChrysler (in the case of a sale by SOGEADE), SOGEADE (in the case of a sale by DaimlerChrysler) or SOGEADE and DaimlerChrysler (in the case of a sale by SEPI) may either exercise a pre-emption right or sell their Indirect EADS Shares on the market in the same proportions as the respective Indirect EADS Shares of the relevant parties bear to each other;
- any transfer of Indirect EADS Shares by either SOGEPA or Lagardère is subject to a pre-emption right in favor of Lagardère or SOGEPA, as the case may be. In the event that such pre-emption right is not exercised, the Indirect EADS Shares may be sold (a) to an identified third party subject to Lagardère's or SOGEPA's consent (as the case may be) and also to DaimlerChrysler's consent and (b) if such consent is not obtained, the Indirect EADS Shares may be sold on the market, subject to DaimlerChrysler's pre-emption right referred to above;
- each of Lagardère and SOGEPA shall have a proportional right to tag-along on a sale of their Indirect EADS Shares;
- the pre-emption and tag-along rights of Lagardère and SOGEPA referred to above do not apply to a transfer of EADS shares directly held by one of them;
- any transfer by the French Financial Institutions of Indirect EADS Shares (a) is subject to a pre-emption right in favor of Lagardère, (b) requires the prior written consent of SOGEPA if made to an identified third party (except for Lagardère) (which consent may only be reasonably withheld) if the acquirer is a financial group and (c) requires the consent of DaimlerChrysler if made to an industrial group.

Any sale on the market of EADS Shares in accordance with the Participation Agreement shall be conducted in an orderly manner so as to ensure the least possible disruption to the market of EADS Shares. To this effect, the parties shall consult with each other before any such sale.

Control of EADS

In the event that a third party to which DaimlerChrysler or SOGEADE objects (a "Hostile Third Party") has a direct or indirect interest in EADS shares equal to 12.5% or more of the number of such EADS shares the voting rights of which are pooled through the Contractual Partnership (a "Qualifying Interest"), then, unless a Hostile Offer (as defined below) has been made by the Hostile Third Party or until such time as DaimlerChrysler and SOGEADE agree that the Hostile Third Party should no longer be considered a Hostile Third Party or the Hostile Third Party no longer holds a Qualifying Interest, the parties to the Participation Agreement shall exercise all means of control and influence in relation to EADS to avoid such Hostile Third Party increasing its rights or powers in relation to EADS.

During the Standstill Period, the parties to the Participation Agreement may not accept an offer (whether by way of tender offer or otherwise) by a Hostile Third Party which is not acceptable to either DaimlerChrysler or SOGEADE (a "Hostile Offer"). After the Standstill Period, Hostile Offers may be accepted subject to provisions requiring, inter alia, the party wishing to accept, to first offer its EADS shares to DaimlerChrysler and/or SOGEADE, in which case DaimlerChrysler and/or SOGEADE may exercise their pre-emption right in respect of all or some only of the EADS shares held by the party wishing to accept the Hostile Offer.

After the Standstill Period, any sale of EADS shares, other than the EADS Indirect Shares, by DaimlerChrysler, SOGEADE or Lagardère, at a time when a Hostile Third Party is a shareholder and purchaser of EADS shares on the market, shall be subject to the pre-emption right of SOGEADE, DaimlerChrysler and SOGEPA respectively.

In the case of a sale by Lagardère, if SOGEPa does not exercise its pre-emption right, DaimlerChrysler shall in turn have a pre-emption right.

Dissolution of Contractual Partnership and EADS Participations B.V.

The Contractual Partnership and EADS Participations B.V. will be dissolved and wound up upon the occurrence of certain events (each a “Termination Event”) including:

- if the proportion which the Indirect EADS Shares of either DaimlerChrysler or SOGEADE bears to the total number of EADS shares is less than 10%, unless the difference between the holdings of DaimlerChrysler and SOGEADE (calculated as a percentage by reference to the number of Indirect EADS Shares held by each of them as against the total number of the EADS shares) is 5% or less in which case the dissolution and winding up shall only occur if the proportion which the Indirect EADS Shares of DaimlerChrysler or SOGEADE bears to the total number of EADS shares is 5% or less; or
- if, on a change of control of either Lagardère, SOGEPa, SOGEADE or DaimlerChrysler, no notice of an offer by a third party to purchase the SOGEADE shares or the Indirect EADS Shares held by the party undergoing the change of control (the “Changed Party”) (which offer the Changed Party wishes to accept) has been served in accordance with the Participation Agreement (see below “— Change of Control”) within 12 months of the date of the change of control occurring (the absence of notice of an offer by a third party to purchase the Indirect EADS Shares held by SEPI upon a change of control of SEPI does not trigger a dissolution of Contractual Partnership or EADS Participations B.V. but shall cause SEPI to lose its main rights or liabilities under the Participation Agreement or the Contractual Partnership Agreement).

On the occurrence of a Termination Event, EADS Participations B.V. is prohibited from conducting further business except as is necessary for its liquidation or the liquidation of the Contractual Partnership.

Change of Control

The Participation Agreement provides, inter alia, that if (a) Lagardère or SOGEPa undergoes a change of control and DaimlerChrysler so elects or (b) SOGEADE undergoes a change of control and DaimlerChrysler so elects or (c) DaimlerChrysler undergoes a change of control and SOGEADE so elects or (d) SEPI undergoes a change of control and SOGEADE or DaimlerChrysler so elect then:

- the party undergoing the change of control shall use its reasonable efforts to procure the sale of its SOGEADE interest (if the party undergoing the change of control is Lagardère or SOGEPa) or of its Indirect EADS Shares (if the party undergoing the change of control is DaimlerChrysler, SOGEADE or SEPI) to a third party purchaser on bona fide arm’s length terms. When the party subject to the change of control is Lagardère or SOGEPa, the third party purchaser shall be nominated with DaimlerChrysler’s consent, not to be unreasonably withheld; and
- in the event that a third party offer to purchase the SOGEADE interest held by Lagardère or SOGEPa or the Indirect EADS Shares held by DaimlerChrysler, SOGEADE or SEPI as the case may be, is received and the party undergoing the change of control wishes to accept that offer, such offer shall immediately be notified to (a) DaimlerChrysler in the case of a change of control occurring to Lagardère or SOGEPa, (b) SOGEADE in the case of the change of control occurring to DaimlerChrysler, (c) DaimlerChrysler in the case of the change of control occurring to SOGEADE, or (d) DaimlerChrysler or SOGEADE in the case of the change of control occurring to SEPI (the party notified under (a), (b), (c) or (d) being the “Non-Changed Party”). The Non-Changed Party shall have a first right to purchase the SOGEADE interest or the Indirect EADS Shares being offered for sale at the price being offered by the third party. In relation to (d), if DaimlerChrysler and SOGEADE have both elected that SEPI procure a third party purchaser, then they shall each have the right to acquire SEPI’s Indirect EADS Shares in the respective proportions which the number of their EADS Shares bear to one another at that time. In the event that the Non-Changed Party does not give notice of its intention to purchase the SOGEADE interest or the Indirect EADS Shares within 30 days of the offer being made, then the Changed Party is obliged to sell such SOGEADE interest or Indirect EADS Shares to the third party on the terms of the third party’s original offer.

The third party purchaser may not be a competitor of EADS, Lagardère, SOGEPa, SOGEADE or DaimlerChrysler (as the case may be) nor a member of the group which has taken control of the Changed Party.

Events of Default Other Than Change of Control

The Participation Agreement provides for certain actions following events of default (other than a change of control) (i.e. insolvency related or a material breach of the Participation Agreement). In particular, if such an event of default occurs in relation to DaimlerChrysler, SOGEADE or SEPI, the non-defaulting party (respectively SOGEADE, DaimlerChrysler, and SOGEADE and DaimlerChrysler acting together) has a call option over the defaulting party's EADS shares and interest in EADS Participations B.V. If such an event of default occurs in relation to Lagardère or SOGEPA, such party is obliged to use its best efforts to sell its interest in the capital of SOGEADE on bona fide arm's length terms to a third party purchaser (who must not be a competitor of EADS or DaimlerChrysler). In the case of a sale by Lagardère, the third party purchaser must be nominated by SOGEPA with DaimlerChrysler's consent (which may not be unreasonably withheld). In the case of such a sale by SOGEPA, DaimlerChrysler must consent to the sale (again, such consent may not be unreasonably withheld).

Specific Rights and Undertakings of the French State

The French State, not being a party to the Participation Agreement, entered into a separate agreement, governed by French law, with DaimlerChrysler and DCLRH on October 14, 1999 (as amended) pursuant to which:

- the French State undertakes to hold an interest of no more than 15% of the entire issued share capital of EADS through SOGEPA, SOGEADE and EADS Participations B.V.;
- the French State undertakes that neither it nor any of its undertakings will hold any EADS shares directly;

in each case disregarding (1) those EADS shares representing 2.3% of the share capital of Aerospatiale Matra (or 1.13% of the post-global offering share capital of EADS) to be freely distributed to certain former shareholders of Aerospatiale Matra as a result of the privatization of Aerospatiale Matra in June 1999; (2) those shares held by SOGEPA or the French State which may be sold or acquired pursuant to the Participation Agreement or the SOGEADE Shareholders' Agreement (see "— SOGEADE"); and (3) those shares held for exclusively investment purposes.

Moreover, until the Completion, the French State held a so-called "Golden Share" (*action spécifique*) in Aerospatiale Matra pursuant to Decree n° 99-97 adopted on February 15, 1999 entitling it to specific rights, including the right to block any decision by Aerospatiale Matra to sell, assign, pledge, grant a mortgage on or offer in guarantee any assets related to the prime contractor status, development or integration of ballistic missiles or Aerospatiale Matra's majority interest in Cilas, Sodern, Nuclétudes and GIE Cosyde.

Following the Completion, the rights of the French State described above resulting from the Golden Share have been replaced by new rights as defined in an agreement entered into between EADS and the French State (the "Ballistic Missiles Agreement") pursuant to which EADS has granted to the French State (a) a veto right and subsequently a call option on the ballistic missiles activity exercisable in the event that (i) a third party which is not affiliated to the DaimlerChrysler and/or Lagardère groups acquires, directly or indirectly, either alone or in concert, more than 10% or any multiple thereof of the share capital or voting rights of EADS or (ii) the sale of the ballistic missiles assets or of the shares of such companies carrying out such activity is considered after the termination of the SOGEADE Shareholders' Agreement, and (b) a right to oppose the transfer of any such assets or shares during the duration of the SOGEADE Shareholders' Agreement.

Finally, in its role as a preferred strategic partner in Aerospatiale Matra and pursuant to an agreement dated February 15, 1999 with the French State, Lagardère had made certain undertakings to the French State in respect of the trading price of Aerospatiale Matra's shares on the Paris Stock Exchange as compared to the CAC 40 index for a period of two years. As a general matter, Lagardère had agreed to make a payment to the French State of up to FF 1.15 billion if the trading price of Aerospatiale Matra's shares underperformed the CAC 40 index by 8% or more during that period. If the trading price of Aerospatiale Matra's shares outperformed the CAC 40 index by 10% or more during that period, Lagardère would not be required to make any payment and its obligation would be terminated. If the trading price was between these two points a pro rata amount would be payable.

Pursuant to an agreement dated October 14, 1999, Lagardère and the French State have agreed that the undertakings of Lagardère described in the above paragraph would remain in force for the same period, the share price of EADS on the Paris Stock Exchange being taken as a reference instead of the share price of Aerospatiale Matra.

SOGEADE

SOGEADE is a French partnership limited by shares (*société en commandite par actions*) the share capital of which is split between SOGEPA (50%) and Désirade (50%). The share capital of Désirade is itself held by Lagardère (74%)

and the French Financial Institutions (26%). Lagardère and the French Financial Institutions hence own indirectly 37% and 13% respectively of SOGEADE.

The general partner (*associé commandité*) of SOGEADE, SOGEADE Gérance, is a French *société par actions simplifiée* which shall be the manager of SOGEADE.

SOGEADE Gérance's Board of Directors consists of eight Directors, four of them nominated by Lagardère and four by SOGEPA. Decisions of the SOGEADE Gérance Board shall be approved by a simple majority of Directors except for the following matters which require the approval of a qualified majority of six of the eight Directors: (a) acquisitions or divestments of shares or assets whose value exceeds Euro 500 million; (b) agreements establishing strategic alliances, or industrial or financial cooperation; (c) a capital increase of EADS of more than Euro 500 million to which no preferential right to subscribe for the shares is attached; (d) any decision to divest or create a security interest over the assets relating to prime contractor status, design, development and integration of ballistic missiles or the majority shareholdings in the companies Cilas, Sodern, Nuclétudes and the GIE Cosyde. The decisions contemplated under (d) above shall also be governed by the Ballistic Missiles Agreement. See “— Specific Rights and Undertakings of the French State.”

When a vote of the SOGEADE Gérance board on such matters does not reach the qualified majority of six Directors by reason of any of the SOGEPA-nominated directors casting a negative vote, the SOGEADE-nominated Directors on the board of EADS Participations B.V. are obliged to vote against the proposal. This means that the French State as the owner of SOGEPA can veto any decisions on these matters within EADS Participations B.V. and in turn within EADS as long as the SOGEADE Shareholders' Agreement remains in existence.

The shareholding structure of SOGEADE shall reflect at all times the indirect interests of all the shareholders of SOGEADE in EADS.

In certain circumstances, and in particular in the event of a change of control of Lagardère, Lagardère shall grant a call option over its SOGEADE indirect shareholding to any non-public third party designated by SOGEPA and approved by DaimlerChrysler. This option may be exercised during the term of the SOGEADE Shareholders' Agreement on the basis of the market price for the EADS shares.

The SOGEADE Shareholders' Agreement shall terminate if Lagardère indirectly or SOGEPA ceases to hold at least 20% of the capital of SOGEADE, except that: (a) the provisions relating to the call option granted by Lagardère described above shall remain in force as long as the Participation Agreement will be in force; (b) as long as SOGEPA holds at least one SOGEADE share, it will remain entitled to nominate a SOGEADE Gérance Director whose approval will be required in respect of any decision to divest or create a security interest over the assets relating to prime contractor status, design, development and integration of ballistic missiles activity or the majority shareholdings in the companies Cilas, Sodern, Nuclétudes and the GIE Cosyde; and (c) the SOGEADE Shareholders' Agreement will be terminated in the event of a dissolution of EADS Participations B.V. caused by DaimlerChrysler. In the latter case, the parties have undertaken to negotiate a new shareholders' agreement in the spirit of the shareholders' agreement between them dated April 14, 1999 relating to Aerospatiale Matra and having regard to their respective shareholdings in SOGEADE at the time of the dissolution of EADS Participations B.V.

Put Option

Under the Participation Agreement, SOGEADE grants a put option to DaimlerChrysler over its EADS shares which shall be exercisable by DaimlerChrysler (i) in the event of a deadlock arising from the exercise by SOGEPA of its rights relating to certain strategic decisions (listed above under the description of SOGEADE) other than those relating to the ballistic missiles activity, or (ii) after the Standstill Period, during certain periods provided that in both cases the French State still holds any direct or indirect interest in EADS shares. The put option may only be exercised in respect of all and not some only of DaimlerChrysler's EADS shares.

The exercise price of the option will be calculated on the basis of an average market price for EADS shares.

In the event that DaimlerChrysler exercises the put option granted to it by SOGEADE, SOGEADE will acquire the EADS shares from DaimlerChrysler. However, Lagardère has the right to require SOGEPA to substitute itself for SOGEADE in relation to the acquisition of DaimlerChrysler's EADS shares following the exercise by DaimlerChrysler of the put option. Such substitution right has been accepted by DaimlerChrysler. In the event that Lagardère should not exercise such substitution right, Lagardère and the French Financial Institutions would have to provide their pro rata part of the financing necessary for such acquisition. If the French Financial Institutions fail to provide their pro rata part in the financing, Lagardère would substitute either itself or any first rank financial institution for the French Financial Institutions. SOGEPA undertakes to provide its pro rata part of the financing corresponding to its rights in SOGEADE. Should Lagardère decide not to take part in the financing, (a) SOGEPA undertakes to substitute itself for SOGEADE to buy the shares sold by DaimlerChrysler as a result

of the exercise of its put option and (b) SOGEPÀ or Lagardère could request the liquidation of SOGEADE and EADS Participations B.V. and the termination of the SOGEADE Shareholders' Agreement, notwithstanding the termination provisions of the SOGEADE Shareholders' Agreement described in "— SOGEADE." In that case, Lagardère could freely sell its EADS shares on the market or in a block sale to a third party.

DESCRIPTION OF THE EADS TRANSACTION

Business Combination Agreements

For the purpose of the combination of the activities of Aerospatiale Matra and Dasa in the aeronautic, space and defense sector, Dasa AG, together with DCLRH (both of which are controlled by DaimlerChrysler), Lagardère and SOGEPa entered into an agreement governed by Dutch law on October 14, 1999 (as amended by supplemental agreements and by the CASA Business Combination Agreement (as defined below)) (herein referred to as the “Aerospatiale Matra-Dasa Business Combination Agreement”).

On December 2, 1999, the parties to the Aerospatiale Matra-Dasa Business Combination Agreement, Aerospatiale Matra and SEPI entered into a separate agreement (the “CASA Business Combination Agreement” (as amended by a supplemental agreement) and, together with the Aerospatiale Matra-Dasa Business Combination Agreement, the “Business Combination Agreements”), also governed by Dutch law, in order to integrate the CASA business into EADS.

The completion of the Business Combination Agreements occurred following satisfaction of certain conditions precedent. These conditions include in particular (1) various regulatory consents or approvals (including approval from the European Commission, the French *Commission des Participations et des Transferts*, *Ministère de la Défense* and *Ministère de l’Economie et des Finances*, the Federal Trade Commission or the Antitrust Division of the U.S. Department of Justice, the Spanish *Consejo de Ministros*) and tax clearances being obtained, (2) the Paris Stock Exchange and Frankfurt Stock Exchange admitting the EADS shares to listing, and (3) termination of the Aerospatiale Matra shareholders’ agreement entered into between Lagardère, the French State and SOGEPa on April 14, 1999. All these conditions have been completed on or before the date of this offering memorandum.

The French State, SOGEPa and Lagardère have obtained confirmation from the French *Conseil des Marchés Financiers* (“CMF”) that the combination of Aerospatiale Matra, Dasa and CASA into EADS would not trigger an obligation on their part to file a repurchase offer (*offre publique de retrait*) on the shares of Aerospatiale Matra, on the basis that the rights and interests of the current minority shareholders of Aerospatiale Matra would not be materially affected by the consequences of the contemplated transactions (see CMF decision n° 200C0181 of February 3, 2000).

Moreover, on May 11, 2000, the European Commission authorized the combination described above. In order to respond to the concerns raised by the European Commission during the course of its investigation and to allow for the creation of an alternative supply source for certain composite structures for telecommunications satellites (reflectors and central tubes), Aerospatiale Matra, Dasa AG and CASA undertook to grant licenses and to sell related and necessary equipment together with the adequate technical support enabling the purchasers of such packages to design and manufacture such composite structures. Nevertheless, EADS will continue to develop its customer base in the field of composite structures and to fulfil the requirements of its institutional customers.

Implementation of the Business Combination Agreements

In order to implement the Business Combination Agreements and reorganize Aerospatiale Matra and Dasa activities in a way which reflects as closely as possible the divisional structure of the EADS group, the following steps have been carried out:

- a general meeting of the shareholders of Aerospatiale Matra was held on May 29, 2000, in order to approve various transactions in relation to the creation of EADS, namely (a) the contribution by Aerospatiale Matra of all its assets and liabilities to certain of its subsidiaries; (b) the contribution of all the shares held by Aerospatiale Matra in such subsidiaries to EADS in exchange for shares in EADS issued to Aerospatiale Matra; (c) the winding up of Aerospatiale Matra and (d) the opening of the liquidation of Aerospatiale Matra. The approval of the resolution of the general meeting of the shareholders of Aerospatiale Matra relating to step (b) was subject to the conditions described in “— Hive down of Aerospatiale Matra’s Activities and Liquidation of Aerospatiale Matra” below;
- All assets and liabilities of Dasa AG to be contributed to EADS have been hived down to various subsidiaries of Dasa AG. See “— Hive Down of Dasa’s Activities.” Shares held by Dasa AG in these subsidiaries and in CASA have been contributed to EADS in exchange for EADS shares. The shares held by EADS Deutschland GmbH in Eurocopter Holding have been sold to EADS;
- SEPI has contributed all of its shares in CASA to EADS in exchange for EADS shares.

In exchange for the contributions made by Aerospatiale Matra, Dasa AG and SEPI, as summarized above, EADS issued shares, all of the same category and with the same rights attached, to each of Aerospatiale Matra, Dasa AG

and SEPI following satisfaction of the conditions precedent contained in the contribution agreements entered into between EADS and Aerospatiale Matra, Dasa AG and SEPI. The EADS shares issued to Aerospatiale Matra were distributed by Aerospatiale Matra to its own shareholders simultaneously with the liquidation of Aerospatiale Matra on the basis of one EADS share for every one Aerospatiale Matra share.

Hive Down of Aerospatiale Matra's Activities and Liquidation of Aerospatiale Matra

As an initial step, Aerospatiale Matra has carried out some internal reorganizations in order to group together the activities of the Aerospatiale Matra group within distinct entities controlled by Aerospatiale Matra (the "Receiving Entities") as a result of which Aerospatiale Matra held:

- 100% of the shares in Airbus Integrated Company (itself holding 100% of Aerospatiale Matra Airbus, which in turn holds 37.9% of the membership rights in Airbus Industrie GIE);
- 70% of the shares in Eurocopter Holding which holds 100% of Eurocopter;
- 100% of the shares in Amantea Holding B.V. which itself holds 50% of Matra Marconi Space N.V. and 11% of Matra Marconi Space France (renamed Astrium S.A.S.);
- 100% of the shares in Matra Hautes Technologies (renamed Aerospatiale Matra Technologies until the Completion and EADS France upon the Completion), which holds all other assets and liabilities of Aerospatiale Matra.

The contribution agreements relating to the above reorganizations were entered into in April 2000, the elements being contributed at their net book value as shown in the accounts of Aerospatiale Matra for the financial year ending December 31, 1999.

Furthermore, Aerospatiale Matra and EADS entered into a Dutch law governed contribution agreement whereby all the shares held by Aerospatiale Matra in the Receiving Entities are to be contributed to EADS in exchange for EADS shares to be issued to Aerospatiale Matra. See "— Contributions to EADS."

At the extraordinary general meeting of the shareholders of Aerospatiale Matra held on May 29, 2000, the shareholders approved (a) the contributions by Aerospatiale Matra of all its assets and liabilities to the Receiving Entities described above, (b) the subsequent contributions by Aerospatiale Matra of its shares in the Receiving Entities to EADS in exchange for EADS shares to be issued to Aerospatiale Matra, (c) the winding up of Aerospatiale Matra and (d) the opening of liquidation of Aerospatiale Matra. The resolution relating to step (b) was passed subject to (e) the decision by the Board of Directors of EADS to issue shares in exchange for the contributions to be made by Aerospatiale Matra and Dasa AG (see below) and (f) the approval of the resolution relating to the liquidation accounts of Aerospatiale Matra by the shareholders of Aerospatiale Matra at another general meeting held on July 8, 2000. The latter general meeting of Aerospatiale Matra shareholders approved the closing of the liquidation of Aerospatiale Matra and the distribution (by way of a redemption of capital and a distribution of reserves) by Aerospatiale Matra to its shareholders of all EADS shares to be issued to Aerospatiale Matra in exchange for its contributions made to EADS on the basis of one EADS share for every one Aerospatiale Matra share.

In connection with the meeting of shareholders of Aerospatiale Matra held on May 29, 2000 a number of documents were made available to the shareholders of Aerospatiale Matra, including the reports from the *commissaires à la scission* on the contributions to the Receiving Entities, the Management Board's report to the shareholders and the observations of the Supervisory Board, to which an opinion made by Lazard Frères Cie., upon the request of the Supervisory Board, is attached.

In the framework of the contributions to Matra Hautes Technologies referred to above and pursuant to Article 384 of the French Law of July 24, 1966, Aerospatiale Matra offered to reimburse the bonds held by the bondholders referred to in the notice published in the French *Bulletin des Annonces Légales Obligatoires* on May 5, 2000.

If said reimbursement is not requested within three months from May 5, 2000, the owners of these securities will become bondholders of Matra Hautes Technologies which will have the guarantee of EADS to secure its commitments.

The liquidation of Aerospatiale Matra is a necessary step in the process of the creation of EADS and is closely linked to the timetable of the listing of EADS shares, the shares being delivered to Aerospatiale Matra's shareholders in connection with the liquidation on the first day of trading of EADS shares on the Paris Stock Exchange.

In such context, EADS has been appointed as liquidator of Aerospatiale Matra in order to permit a timely closing of the liquidation of Aerospatiale Matra.

Since all assets and liabilities of Aerospatiale Matra have been contributed to EADS prior to its liquidation, the appointment of EADS as liquidator of Aerospatiale Matra does not result in a transfer to EADS of material additional liabilities on a consolidated basis.

Lagardère Group Services

At the time of the combination of Aerospatiale and Matra Hautes Technologies, it was agreed that the direct and indirect subsidiaries of Matra Hautes Technologies that were contributed to Aerospatiale, would continue to receive from Matra Hachette Général, a wholly owned subsidiary of Lagardère, certain administrative services under conditions identical to the conditions previously existing — in consideration for a fixed management fee (generally expressed as a percentage of turnover).

These agreements, which must remain in force until December 31, 2003, have continued as agreed, and a portion of the fees paid to the Lagardère group will continue to be paid to Aerospatiale Matra in consideration for the transfer to Aerospatiale Matra of a certain number of employees (and related expenses) of the Lagardère group who perform these services.

Because of the contribution of a portion of its activities to Matra Hautes Technologies by Aerospatiale Matra as described above, Matra Hautes Technologies will be subrogated, according to law, in all the rights and obligations resulting from the corresponding subcontracting agreement between the Lagardère group and Aerospatiale Matra.

Hive Down of Dasa's Activities

As an initial step Dasa AG has carried out some internal reorganizations in order to group together the activities of the Dasa group within distinct entities, as a result of which Dasa AG held:

- 100% of the shares in DaimlerChrysler Aerospace Airbus Beteiligungs GmbH which holds 99.99% of the shares in DaimlerChrysler Aerospace Airbus GmbH, which in turn holds 37.9% of the membership rights in Airbus Industrie GIE;
- 100% of the shares in P.Q.X. Beteiligungs GmbH (to be renamed Dasa Raumfahrt Beteiligungs GmbH), which is to hold 68.4% of the shares in Dasa Dornier Raumfahrt Holding GmbH (the other 31.6% being held by Dornier GmbH), which holds 50% of the shares in Astrium N.V., and 11% of the shares in Astrium Deutschland GmbH (the other 89% being held by Astrium N.V.);
- 100% of the shares in EADS Deutschland GmbH to which all the other assets and liabilities of Dasa AG were contributed with the exception of (i) a cash amount of Euro 3,133 million, (ii) any and all liabilities relating to Dornier aircraft, (iii) any and all claims and liabilities relating to the Fokker group and (iv) Dasa AG's participating interest in MTU Motoren- und Turbinen Union München GmbH (99.99%), Temic Telefunken microelectronic GmbH (49%) and debis AirFinance B.V. (10%) (the assets and liabilities referred to in (i) to (iv) above being the "Dasa Excluded Assets");
- 0.71% of the shares in CASA.

In order to implement the above reorganizations, a number of contribution agreements were entered into between October 1999 and April 2000, the elements being contributed at their net book value as shown in the accounts of Dasa for the financial year ending December 31, 1999.

It should be noted that EADS Deutschland GmbH holds 75% of the shares in DADC (the other 25% being held by DCLRH). The share capital of Dornier GmbH is held as to 57.55% by DADC and as to 42.45% by the Dornier family. In shareholders' meetings DADC is entitled to more than 87.5% and the Dornier family to less than 12.5% of the voting rights in Dornier GmbH. DADC and Dornier GmbH have entered into a control and profit and loss transfer agreement.

A considerable number of shareholders' resolutions in Dornier GmbH require a majority of 100% of the votes cast in the shareholders' meeting notably resolutions to dissolve the company, alterations of the articles of association if they terminate, limit or have an impact on the rights of the minority shareholders, reduction of share capital, mergers (unless Dornier GmbH is the surviving entity), the transfer of holdings in other enterprises or the transfer of whole areas of enterprise activities with the exception of transfers of assets in return for shares or as a contribution in kind or to a company associated with DaimlerChrysler, which is assumed to be the case if DaimlerChrysler controls at least 20% of its share capital. The same requirement applies with regard to all transfers of shares of Dornier GmbH held by the DaimlerChrysler group (including associated enterprises) subject to certain

exceptions including the transfer to other DaimlerChrysler group companies (including associated enterprises). Furthermore, the Dornier family receives a guaranteed dividend from Dornier GmbH of (depending on the nature of the shares) 8.7% or 15% of the nominal amount of their shares plus any corporation tax credits. The guaranteed dividend is indexed. DaimlerChrysler has guaranteed the payment of the minimum dividend to the Dornier family shareholders. In the case of the profit and loss transfer agreement, which presently exists between DADC and Dornier GmbH, the Dornier family shareholders are entitled to receive payments corresponding at least to the amount which they would be entitled to in the absence of such profit and loss transfer agreement. Internally DADC has assumed this obligation.

On November 30, 1988 DaimlerChrysler and the Dornier family entered into a separate agreement to strengthen the rights of DaimlerChrysler and, simultaneously, to protect the economic interests of the minority shareholders. The latter can, in particular, demand that their shares in Dornier GmbH be bought (i) for cash consideration or (ii) in exchange for DaimlerChrysler shares or (iii) in exchange for shares in a company in which, or under which, DaimlerChrysler concentrates its aerospace activities by DaimlerChrysler or another company associated with DaimlerChrysler and nominated by DaimlerChrysler. On March 29, 2000 DaimlerChrysler, DCLRH, DADC, EADS Deutschland GmbH and Dasa AG entered into an agreement according to which DaimlerChrysler has the right to demand from DADC to buy the shares so offered by the Dornier family shareholders. DaimlerChrysler shall reimburse DADC for any amount to be paid being above the fair market value of the shares. Moreover, DADC will assume certain other rights and obligations relating to the protection of the interests of the Dornier family.

On or before Completion, Dasa AG and EADS entered into agreements whereby all the shares held by Dasa AG in DaimlerChrysler Aerospace Airbus Beteiligungs GmbH, Dasa Raumfahrt Beteiligungs GmbH and CASA, and 99.99% of the shares held by Dasa AG in EADS Deutschland GmbH were contributed to EADS in exchange for EADS shares issued to Dasa AG (see below “— Contributions to EADS”) and the shares in Eurocopter Holding held by EADS Deutschland GmbH were sold to EADS.

Finally, under the terms of the Business Combination Agreements, DCLRH has undertaken to indemnify Lagardère (for itself and on behalf of each member of the Lagardère group) and SEPI and shall keep them indemnified, against (save in respect of any consequential loss not foreseeable by DCLRH (or any member of the DaimlerChrysler group)) all or any costs, claims, demands, expenses, losses or liabilities that they (or any of them) may suffer or incur from the date of the Business Combination Agreements as a result of all or any of the shareholders of Dornier GmbH other than a member of the Dasa group obtaining or seeking to obtain any rights or remedies against Lagardère (or any member of the Lagardère group), SEPI, the Contractual Partnership, EADS Participation B.V., Dasa AG, EADS or any entity contributed by or on behalf of DaimlerChrysler which is to become a member of the EADS group or any member of the Dasa AG group. This indemnity shall also extend to EADS to the extent such protection is not provided for in the transfer of the Dasa business to EADS.

CASA Cash Extraction

SEPI has extracted an amount of Euro 340 million from CASA by way of distribution of reserves and reduction of capital pursuant to a decision of the general meeting of shareholders of CASA dated April 27, 2000. The cash extraction corresponding to CASA’s shareholders other than SEPI amounts to Euro 2,447,535.12 (i.e. a total cash extraction of Euro 342,447,535.12).

SEPI and EADS entered into a Dutch law governed contribution agreement whereby all the shares held by SEPI in CASA were contributed to EADS in exchange for shares issued to SEPI. See “— Contributions to EADS.”

Contributions to EADS

At a meeting held on May 26, 2000, the Board of Directors of EADS approved the issue of shares as provided for in the above contribution agreements entered into with Aerospatiale Matra, Dasa AG and SEPI:

- 403,687,775 EADS shares of Euro 1.00 each, representing 56.46% of EADS’ issued share capital to Aerospatiale Matra in exchange for the contribution of all of its shares in the Receiving Entities, such EADS shares being then distributed by Aerospatiale Matra to its own shareholders upon Completion;
- 266,625,182 EADS shares of Euro 1.00 each (in addition to the 50,000 EADS shares already held by Dasa AG), representing 37.29% of EADS’ issued share capital to Dasa AG in exchange for the contribution by Dasa AG of 99.99% of its shares in EADS Deutschland GmbH, and all of its shares in Dasa Raumfahrt Beteiligungs GmbH, DaimlerChrysler Aerospace Airbus Beteiligungs GmbH and CASA;

- 44,690,871 EADS shares of Euro 1.00 each, representing 6.25% of EADS' issued share capital to SEPI in exchange for the contribution by SEPI of all its shares in CASA.

The above shares issued by EADS to Aerospatiale Matra, Dasa AG and SEPI were issued by way of Dutch notarial deeds of issue executed following satisfaction of the conditions precedent mentioned in the respective contribution agreements.

EADS has agreed not to dispose of the shares contributed to it by Aerospatiale Matra, Dasa AG and SEPI for a period of 7 years. The contribution agreements entered into between EADS on the one hand and Aerospatiale Matra, Dasa AG and SEPI on the other hand, provide that EADS may, if it determines that this is desirable, dispose of such shares provided that EADS shall, on demand, indemnify Lagardère and SOGEPA (in the case of a sale of shares contributed by Aerospatiale Matra), Dasa AG or SEPI, as the case may be, for all tax disadvantages (tax actually paid or borne by them as well as any consumption of loss-carry-forward potential) they suffer as a result of the loss of the tax benefit triggered by the disposal of the shares by EADS. Such obligation to indemnify shall cease after 7 years from the date of contribution. In the event that the indemnification would be made to all three of Lagardère, SOGEPA and Dasa AG, the Board of Directors would decide on the amount of the indemnity on the basis of a report made and presented by the two independent Directors of EADS. The amount and the conditions of this indemnification will be reported to the general meeting of shareholders.

Valuation of Contributions

The value of the contributions made by respectively Aerospatiale Matra, Dasa AG and SEPI to EADS was agreed by reference to the net book value of such assets as shown in the accounts of respectively Aerospatiale Matra, Dasa AG and SEPI for the financial year ending December 31, 1999.

A valuation report on the contributions made by Aerospatiale Matra, Dasa AG and SEPI to EADS has been prepared by the Board of Directors of EADS and reviewed by the Dutch auditors appointed for this purpose.

Creation of SOGEADE and Désirade

On Completion, the French Financial Institutions purchased 3.9% of the post-global offering EADS share capital from the French State, of which 3.75% is being sold via the global offering.

On the same date, Désirade and SOGEADE entered into contribution agreements with Lagardère, SOGEPA and the French Financial Institutions. Pursuant to these agreements Lagardère and the French Financial Institutions contributed to Désirade EADS shares representing respectively 14.85% and 0.15% of the post-global offering EADS share capital in exchange for shares in Désirade. Lagardère then sold 25% of the share capital of Désirade to the French Financial Institutions. Furthermore, SOGEPA and Désirade each then contributed 15% of the post global offering EADS shares (30% in total) to SOGEADE. In July 2003, Lagardère will acquire the Désirade shares held by the French Financial Institutions.

At the general meetings of the shareholders of SOGEADE and Désirade held on Completion, the SOGEADE and Désirade shareholders approved the contributions described above and the shares described above were issued by SOGEADE and Désirade, subject to the conditions precedent mentioned in the Business Combination Agreements and to the approval by the shareholders of Aerospatiale Matra of the resolutions relating to the liquidation of Aerospatiale Matra.

Pledge over EADS Shares Granted to EADS Participations B.V.

Upon Completion and in order to secure their undertakings under the Contractual Partnership Agreement and the Participation Agreement, SOGEADE, DaimlerChrysler and SEPI granted a pledge over their respective Indirect EADS Shares to EADS Participations B.V. for the benefit of EADS Participations B.V. and the other parties to the Contractual Partnership Agreement.

DESCRIPTION OF SHARES

Set forth below is a summary of certain information concerning the Company's shares and certain provisions of the Company's Articles of Association and Dutch law in effect as of the date hereof. This summary contains all material information concerning the Shares. Such summary does not purport to be complete and is qualified in its entirety by reference to the Company's Articles of Association and Dutch law. Any change in the Company's Articles of Association is subject to approval by a general meeting of shareholders.

The Company was incorporated according to the laws of The Netherlands by a deed of December 29, 1998. In addition to the provisions of its Articles of Association and provisions of the law of The Netherlands, the Company is also subject to regulations of the Paris, Frankfurt and Spanish Stock Exchanges. See "Market Information."

Share Capital

The Company was founded with an authorized share capital of NLG 500,000 divided into 500 shares each having a nominal value of NLG 1,000, of which 100 were issued to Aerospatiale Matra on December 29, 1998. These shares were transferred to Dasa AG by way of a notarized transfer certificate on December 28, 1999. On April 3, 2000, the Company's share capital was converted to Euro and the nominal value of the EADS shares was changed from NLG 1,000 to Euro 1.00.

Prior to Completion, the authorized share capital of the Company amounted to Euro 250,000 and comprised 250,000 shares each having a nominal value of Euro 1.00 and the Company had issued 50,000 shares each having a nominal value of Euro 1.00. The general meeting of shareholders of EADS held on May 10, 2000 voted to increase the authorized capital to Euro 3,000,000,000, comprising 3,000,000,000 shares of Euro 1.00 each, such increase to take effect only at the date of Completion, on which date the authorization was used at a level of Euro 715,003,828 for the needs of the contributions to be made by Aerospatiale Matra, Dasa AG and SEPI to EADS.

As of the date of this offering memorandum, the Company's issued share capital is Euro 715,053,828 comprising 715,053,828 shares each having a nominal value of Euro 1.00. Aerospatiale Matra will hold 403,687,775 (56.46%), DaimlerChrysler 266,675,182 (37.29%) and SEPI 44,690,871 (6.25%).

On July 8, 2000, the general shareholders' meeting of Aerospatiale Matra resolved to authorize the liquidation of Aerospatiale Matra as well as a distribution, on the basis of one Aerospatiale Matra share for each EADS share, to all of Aerospatiale Matra's shareholders of all of the EADS shares that Aerospatiale Matra acquired in exchange for the contributions it made.

In addition, EADS' Board of Directors during its meeting held on June 19, 2000, on the basis of the authorization granted by the shareholders in their general meeting held on May 24, 2000, granted all powers to the two Chief Executive Officers of the Company (or to persons designated by them) in order to issue up to 94,556,965 new Shares for the purpose of the global offering (including up to 2,000,000 shares to be issued in connection with the underwriters' exercise of the over-allotment option).

The changes in the issued share capital since the incorporation of the Company are shown in the table below.

**Changes in the issued share capital since the incorporation of the
Company until after the global offering**

Date	Nature of Transaction	Nominal value per share	Number of shares issued	Premium	Total number of issued shares after transaction	Total issued capital after transaction
December 29, 1998.....	Incorporation	NLG 1,000	100	—	100	NLG 100,000
April 3, 2000.....	Conversion into Euro	Euro 1.00	50,000	—	50,000	Euro 50,000
On Completion.....	Issue of shares in exchange for contributions to be made by Aerospatiale Matra, Dasa AG and SEPI	Euro 1.00	715,003,828	Euro 1,512,798,902	715,053,828	Euro 715,053,828
Following the global offering and before the exercise of the over- allotment option.....	Capital Increase	Euro 1.00	92,556,965	Euro 1,452,467,965	807,610,793	Euro 807,610,793
Following the exercise of the over- allotment option.....	Capital Increase	Euro 1.00	Up to 2,000,000	Up to Euro 34,000,000	Up to 809,610,793	Up to Euro 809,610,793
Following exercise of the stock options.....	Capital Increase	Euro 1.00	Up to 5,214,884	To be determined	Up to 814,825,677	Up to Euro 814,825,677

Shareholders' Meetings

General meetings of shareholders are held as often as the Board of Directors deems necessary or upon the request of shareholders holding, individually or together, at least 10% of the total issued share capital of the Company.

The Board of Directors must give notice of general meetings in at least one Netherlands national daily newspaper, at least one international daily newspaper and at least one daily newspaper in each of the countries in which the Company shares are listed. Such publication must be made at least fifteen days before the day of the meeting and shall state either the matters to be considered at such meeting or that the agenda is open to inspection by the shareholders at the offices of the Company and at such other locations as may be specified in the notice.

The annual general meeting of the Company is held within six months of the end of the financial year.

General meetings are held in Amsterdam, Den Haag, Rotterdam or Haarlemmermeer (Schiphol Airport). The Board of Directors may decide that general meetings of shareholders may be attended by means of electronic or video communication devices from the locations mentioned in the convening notice.

The Board of Directors must announce the date of the annual general meeting of shareholders at least two months before the meeting. Requests made by one or more shareholders collectively representing at least three percent (3%) of the issued share capital, to put items on the agenda for the annual general meeting of shareholders, must be effected by the Board of Directors, if such request to the Board of Directors has been made at least six (6) weeks prior to the date scheduled for the meeting except if in the opinion of the Board of Directors important interests of the Company prevail over the insertion of such items on the agenda.

Each holder of one or more shares may attend general meetings of shareholders, either in person or by written proxy (a mail vote is not recognized by Dutch law), to speak and to vote according to the Articles of Association.

A shareholder or a person who has the right to attend a meeting can see to it that he is represented by more than one proxy holder, provided that only one proxy holder can be appointed for each share. See "Market Information — Notices of General Meetings of Shareholders."

In relation to holders of registered shares, the Board of Directors may provide in the convening notice that those persons are recognized as authorized to exercise the rights to attend, speak and vote at the general meetings, who at a point in time mentioned in the convening notice are authorized to exercise those rights and as such have been registered in the register appointed for the purpose by the Board of Directors, irrespective of who is authorized to exercise these rights on the day of the meeting.

Any person who is entitled to exercise the rights set out in the above paragraph (either in person or by means of a written proxy) and is attending the meeting from another location (see above) in such manner that the person(s) acting as chairman/chairmen of the meeting is/are convinced that such person is properly participating in the

meeting, shall be deemed to be present or represented at the meeting, shall be entitled to vote and shall be counted towards a quorum accordingly.

As a prerequisite to attending the general meeting of shareholders and to casting votes, the holders of bearer shares and those who derive the aforementioned rights from these shares shall be obliged to deposit their share certificates or the documents evidencing their rights against receipt, at such locations as shall be determined by the Board of Directors and stated in the convening notice.

Such convening notice shall also state the day which has been fixed as the final day on which the shares certificates and the documents evidencing the aforementioned rights may be deposited. That day may not be earlier than five business days, but in each case not earlier than the seventh day prior to the meeting.

As far as it concerns registered shares the Board of Directors should be informed in writing within the timeframe mentioned in the two preceding sentences of the intention to attend the meeting.

All resolutions are adopted by means of a simple majority of the votes cast except when a qualified majority is prescribed by the Articles of Association or by Dutch law. No quorum is required for any shareholders' meeting. Dutch law requires a special majority for the passing of certain resolutions: inter alia capital reduction, exclusion of preemption rights in connection with share issues, statutory mergers or statutory demergers; the passing of such resolutions requires a majority of two thirds of the votes cast if 50% of the capital quorum is not present at the meeting (or otherwise a simple majority). In addition, resolutions to amend the Articles of Association or to dissolve the company shall only be capable of being adopted with a majority of at least two thirds of the valid votes cast at a general meeting of shareholders, whatever the quorum present at such meeting.

Pledges of shares and beneficiaries of a usufruct, which do not have voting rights, do not have the right to attend and to speak at general meetings. The owners of shares which are subject to a pledge or a usufruct, which do not have voting rights, are entitled to attend and to speak at general meetings. In all general meetings, each shareholder has one vote in respect of each share it holds.

A shareholder whose shares are subject to a pledge or usufruct shall have the voting rights attaching to such shares unless otherwise provided by law or by the Articles of Association or if, in the case of a usufruct, the shareholder has granted voting rights to the usufructuary. Pursuant to the Articles of Association and subject to the prior consent of the Board of Directors, a pledgee of shares in the Company may be granted the right to vote in respect of such pledged shares.

Notification of Interests

Any person, acting alone or in concert (as defined in the Netherlands Act on reporting of shareholdings, *Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996* (the "WMZ")), acquiring directly or indirectly or disposing of an interest in the share capital of the Company resulting in such person, after such acquisition or disposal, being in a different range of thresholds in terms of capital or voting rights than that in which he was prior to such acquisition or disposal is required by the WMZ to promptly notify the Company and the *Stichting toezicht effectenverkeer* ("STE") of such interests. The applicable ranges of relevant interests pursuant to the WMZ are as follows: 0% to 5%; 5% to 10%; 10% to 25%; 25% to 50%; 50% to 66 and 2/3%; 66 and 2/3% and over. The STE publishes all disclosures made to it in a Dutch national newspaper. In addition, the Articles of Association require notification in the event of an acquisition or disposal of an interest resulting, for any person acting alone or in concert, in a change of range from or to the ranges 25% to 33 and 1/3% and 33 and 1/3% to 50%.

Furthermore, pursuant to the Netherlands Act on supervision of securities trade 1995 (*Wet toezicht effectenverkeer 1995*), an additional disclosure requirement applies for certain categories of persons. This disclosure requirement applies among others to shareholders with a direct or indirect interest of 25% or more in the capital of a listed company, and their spouses, ascendants and descendants in direct line of the shareholder, and other persons with whom the shareholders conduct a joint household. These shareholders are required to notify the STE of all transactions in securities pertaining to the company in which they hold an interest of 25% or more. If the shareholder with an interest of 25% or more is a company, this obligation extends to the members of the company's Board of Directors and Board of Supervisory Directors.

Once its shares are admitted to listing in France, Germany and Spain, the Company will (i) inform the *Conseil des Marchés Financiers* ("CMF"), the CNMV and the Spanish stock exchanges on which the shares will be listed of any disclosure of holdings exceeding the above-mentioned thresholds that it receives, and (ii) publish a notice on the disclosure in a German national financial newspaper.

The Articles of Association also require that any person acquiring directly or indirectly or with others with whom it is acting in concert (as defined in the WMZ) more than one tenth of the issued share capital or voting rights of

the Company must notify the Company of its intentions (i) to buy or sell shares of the Company in the following 12 months; (ii) to continue or to stop acquiring shares or votes of the Company; (iii) to acquire control of the Company; or (iv) to seek to designate a member of the Board of Directors of the Company. As soon as the shares have been listed as described above, the Company will provide the CMF with the information received in this context. The CMF has indicated that it will publish a notice concerning any communication so transmitted. The CNMV will publish all such notifications received.

The failure to comply with the legal obligation of the notification of the change in range of thresholds resulting from the WMZ is a criminal offence under the law of The Netherlands and can give rise to criminal penalties as well as civil law penalties, including the suspension of voting rights.

Mandatory Offer

Pursuant to Article 15 of the Articles of Association, in the event that a direct or indirect acquisition of shares results in a person acting alone or in concert (as defined in the WMZ) holding shares or votes where the control over the number of shares or votes reaches or exceeds 33 and 1/3% of the issued share capital of the Company then such person(s) is (are) required to make an unconditional public offer to all shareholders to acquire all of their shares or to procure that such an offer is made. Such offer must comply with all of the applicable regulatory or other legal requirements in each jurisdiction in which the Company's shares are listed.

Pursuant to Article 16 of the Articles of Association, in the event of a failure to launch such an offer (or if the offer does not satisfy the relevant legal or regulatory requirements in each of the jurisdictions where the Company's shares are listed) within two months after notification to the Company of shareholdings reaching or exceeding 33 and 1/3% or failing such notification, within a period of fifteen days of receipt of notice from the Board of Directors confirming the obligation to make the public offer, then any person(s) who is (are) required to make the offer shall within the period specified by the notice sent by the Board of Directors exchange for depository receipts to be issued by the *Stichting Administratiekantoer EADS* (the "Foundation"), such percentage of shares they hold over and above the 33 and 1/3% of the shares issued by the Company (the "Excess Percentage"). From the date specified in the notice sent by the Board of Directors, the right to attend meetings, to vote and to receive dividends shall be suspended in respect of the Excess Percentage. If, within a period of fourteen days from a further notice from the Board of Directors, the person required to exchange his shares representing his Excess Percentage for depository receipts still has not done so, then the Company is irrevocably authorized to exchange such shares for depository receipts issued by the Foundation. The constitutive documents of the Foundation provide that the Foundation shall not have the right to attend meetings of shareholders of the Company as a shareholder to speak at such meetings and to vote the shares it holds, except if, in the view of the Board of Directors of the Foundation (comprising the two independent Directors and one of the two Chief Executive Officers of EADS), such action is required for the performance of the mandatory offer provisions in the Articles of Association.

The obligation to make a public offer does not apply in the following situations:

- to a transfer of shares to the Company itself or to the Foundation;
- to a securities custody, clearing or settlement institution acting in that capacity, provided that the provisions of Article 16 of the Articles of Association described above shall be applicable where shares are held for persons acting in breach of the provisions of Articles 15 and 16 of the Articles of Association described above;
- to a transfer of shares by the Company or to an issue of shares by the Company on a merger or on an acquisition by the Company of another company or business;
- to a transfer of shares from one party to another party who is a party to an agreement as envisaged in the WMZ to define "concert parties" where the agreement is entered into before December 31, 2000 (as amended, supplemented or replaced by a new agreement by the admission of one or more new parties or the exclusion of one or more parties) except that this exemption will not apply to a new party that individually or with its subsidiaries and/or group companies holds at least thirty-three and one third percent of the control over shares or votes in the Company; this exemption is intended to exclude the parties to the Participation Agreement (as amended, supplemented or replaced by a new agreement by the admission of one or more new parties or the exclusion of one or more parties) from the obligation to make the mandatory offer in the event of a transfer of shares between themselves;
- to a transfer by a shareholder to a subsidiary in which it holds more than 50% or by a shareholder to a company which holds more than 50% in such transferring shareholder.

Dividends

The Board of Directors shall determine which part of the profits of the Company shall be attributed to reserves. The remaining distributable profit shall be at the disposal of the general meeting of shareholders.

The shareholders meeting may resolve (if so proposed by the Board of Directors) that all or part of a dividend shall be paid in shares of the Company as opposed to cash.

The declaration of a dividend, an interim dividend or another distribution to the shareholders shall be made known to them within seven days after such declaration. Declared dividends shall be payable within four weeks of such declaration unless another date for payment is proposed by the Board of Directors and approved by the shareholders meeting.

Dividends, interim dividends and other distributions on shares shall be paid by bank transfer to the bank or giro accounts designated in writing to the Company by, or on behalf of, shareholders at the latest fourteen days after their announcement.

Adoption of Annual Accounts

Each year the Board of Directors must prepare annual accounts within five months after the end of the Company's financial year, unless the shareholders extend this period by a maximum of six months on account of extraordinary circumstances, and submit them to a general meeting of shareholders for adoption.

Liquidation Rights

In the event of the dissolution and liquidation of the Company, the assets remaining after payment of all debts and liquidation expenses shall be distributed among holders of the Shares in proportion to their shareholdings.

Issue of Shares and Preemption Rights

Unless limited or eliminated by the general meeting of shareholders as described below, holders of shares have a pre-emptive right to subscribe for any newly issued shares pro rata to the aggregate nominal value of shares held by them, except for shares issued for consideration other than cash and shares issued to employees of the Company or of a group company.

The general meeting of shareholders has the power to issue shares. The general meeting of shareholders may also authorize the Board of Directors for a period of no more than five years to issue Shares and to determine the terms and conditions of share issuances.

The shareholders of EADS, at the general meeting of shareholders held on May 24, 2000 authorized the Board of Directors to issue shares up to the Company's authorized capital from time to time and to grant rights to subscribe for shares for a period up to and including the date of the annual general meeting of shareholders in 2001, and also in the case where the subscription rights may be exercised thereafter, and to determine the terms and conditions of the share issuances.

The general meeting of shareholders also has the power to limit or exclude pre-emption rights in connection with new issues of shares, and may authorize the Board of Directors for a period of no more than five years, to limit or exclude pre-emption rights. All resolutions in this context must be approved by a two-thirds majority of the votes cast during the general meeting of shareholders in the case where less than half of the capital issued is present or represented at said meeting.

The general meeting of shareholders of EADS held on May 24, 2000 authorized the Board of Directors to waive or limit the pre-emption rights for the period ending on the date of the annual general meeting of shareholders in 2001.

Acquisition of Own Shares

The Company may acquire its own shares, subject to certain provisions of the law of The Netherlands and the Articles of Association, if (i) the shareholders' equity less the payment required to make the acquisition does not fall below the sum of paid-up and called portion of the share capital and any reserves required by the law of The Netherlands and (ii) the Company and its subsidiaries would thereafter not hold or hold in pledge Shares with an aggregate nominal value exceeding one-tenth of the Company's issued share capital. Share acquisitions may be effected by the Board of Directors only if the shareholders in general meeting have authorized the Board of Directors to effect such repurchases. Such authorization may apply for a maximum period of 18 months. Shares held by the Company may not be voted. Usufructuaries and pledgees of shares that are held by the Company are,

however, not excluded from their voting rights in such cases where the right of usufruct or pledge was vested before the share was held by the Company.

A summary of the regulations of the Paris, Frankfurt and Spanish Stock Exchanges pertaining to the purchase (and trading) of own shares is contained in the “Market Information” section.

Capital Reduction

The general meeting of shareholders may reduce the issued share capital by cancellation of shares or by reducing the nominal value of shares by means of an amendment of the Articles of Association, the latter requiring the approval of at least two thirds of the votes cast at the general meeting.

Amendment of the Articles of Association and Dissolution

The Company may be dissolved and the Articles of Association may be amended only if approved by at least two thirds of the votes cast at a general meeting of shareholders whatever the quorum present at such meeting.

Limitation on Right to Hold or Vote Shares

There are currently no limitations imposed by the law of The Netherlands or by the Company’s Articles of Association on the right of non-resident holders to hold or vote the Shares without prejudice to the provisions of Article 16 of the Articles of Association. See “— Mandatory Offer.”

Share Certificates

The shares of EADS sold in the global offering shall be evidenced by registration in the transfer records of EADS. The Board of Directors may decide in respect of all or certain shares, that they shall be in bearer form.

Shares shall be registered in the shareholders register without the issue of a share certificate or should the Board of Directors so decide in respect of all or certain shares, with the issue of a certificate. Share certificates shall be issued in such form as the Board of Directors may determine. Registered shares shall be numbered in the manner to be determined by the Board of Directors.

Share Transfer

The Shares will be evidenced by registration in the transfer records of EADS. These transfer records shall indicate that the shares of EADS sold to qualified institutional buyers in the United States are subject to transfer restrictions.

The Shares of EADS will be accepted into the book-entry settlement system of SICOVAM S.A. Each person with an ownership interest in the shares of EADS must rely on the procedures of the relevant clearing system and, if it is not a member of such clearing system, financial institutions having accounts with such clearing system (“participants”) to exercise or to be entitled to any shareholder rights. A person may own an interest in the Shares through participants in Clearstream Banking AG, Servicio de Compensación y Liquidación de Valores, S.A., Euroclear or Clearstream Banking S.A. (formerly Cedelbank), since such clearing systems are participants in SICOVAM S.A.

Each purchaser of shares of EADS that may wish to resell any of them pursuant to Regulation S under the U.S. Securities Act is advised that the Shares will be listed on the Paris, Frankfurt and Spanish Stock Exchanges. Each of these stock exchanges is a “designated offshore securities market” (within the meaning of Regulation S under the U.S. Securities Act) and, accordingly, a resale transaction could be effected in, on or through the facilities of such exchange in reliance upon, and subject to compliance with, the safe harbor provided by Rule 904 of Regulation S.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any resale, pledge or transfer of Shares. Terms used in this “Transfer Restrictions” section that are defined in Rule 144A or in Regulation S are used herein as defined therein.

General

The Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other U.S. jurisdiction and, accordingly, may not be offered, sold, pledged or otherwise transferred or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except to “qualified institutional buyers” within the meaning of Rule 144A (“QIBs”) in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A and to non-U.S. persons outside the United States in accordance with Regulation S.

No action has been taken or will be taken in any jurisdiction by the underwriters, EADS or the selling shareholders that would permit a public offering of the shares or possession or distribution of any offering documents or any amendment or supplement thereto or any other offering or publicity material relating to the Shares in any country or jurisdiction where action for that purpose is required, except with respect to the retail offering in France, Germany and Spain.

Until 40 days after the commencement of the global offering, an offer or sale of any of the Shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or Regulation S under the U.S. Securities Act or another exemption from registration.

United States

Rule 144A Shares

Each purchaser of Shares pursuant to Rule 144A (the “Rule 144A Shares”) will be deemed to have represented and agreed that it has received a copy of this offering memorandum and such other information as it deems necessary to form an informed investment decision and:

- (1) the purchaser (A) is a QIB, (B) is aware that the sale to it of Rule 144A Shares is being made in reliance on Rule 144A and (C) is acquiring such Rule 144A Shares for its own account or for the account of a QIB, as the case may be;
- (2) it understands that the Rule 144A Shares have not been and will not be registered under the U.S. Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (A) to a person whom the seller and any person acting on its behalf reasonably believe is a QIB in a transaction meeting the requirements of Rule 144A, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (C) pursuant to an exemption from registration provided by Rule 144 (if available) or (D) pursuant to an effective registration statement under the U.S. Securities Act, in each case in accordance with any applicable securities laws of any state of the United States and otherwise in accordance with the restrictions on offers and sales described in this offering memorandum;
- (3) it acknowledges that any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions, shall not be recognized by the Company in respect of the Rule 144A Shares; and
- (4) it acknowledges that the Company, the underwriters, their affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements.

Regulation S Shares

Each purchaser of Shares offered outside the United States pursuant to Regulation S (the “Regulation S Shares”) will be deemed to have represented and agreed that it has received a copy of this offering memorandum and such other information as it deems necessary to form an informed investment decision and:

- (1) it acknowledges (or, if it is a broker-dealer acting on behalf of its customer, its customer has confirmed to it that such person acknowledges) that the Regulation S Shares issued upon conversion thereof have not been and will not be registered under the U.S. Securities Act;

- (2) it certifies (or if it is a broker-dealer acting on behalf of its customer, its customer has confirmed to it) that it (or such customer) is the beneficial owner of the Regulation S Shares and it (or such customer) is not a U.S. Person and is located outside the United States and acquired, or has agreed to acquire and will have acquired, the Regulation S Shares outside the United States;
- (3) it understands that the Regulation S Shares may not be offered, sold, pledged or otherwise transferred except (a) until 40 days after the later of the commencement of the global offering and the closing date with respect to the Regulation S Shares, in an offshore transaction in accordance with Rule 903 or 904 of Regulation S or to QIBs in reliance on Rule 144A under the U.S. Securities Act, and thereafter in accordance with an exemption from registration under the U.S. Securities Act, and (b) in any event in accordance with the restrictions on offers and sales described in this offering memorandum;
- (4) it acknowledges that any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by the Company in respect of the Regulation S Shares; and
- (5) it acknowledges that the Company, the underwriters, their affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements.

MARKET INFORMATION

General

Prior to the global offering, there has been no public trading market for the Company's shares. However, the Company has applied to list the Shares on the monthly settlement market ("*marché à règlement mensuel*") of the *Premier Marché* of the Paris Stock Exchange, in *amtlicher Handel* on the Frankfurt Stock Exchange and the Spanish Stock Exchanges.

The *Conseil scientifique* of the Paris Stock Exchange announced on April 7, 2000 that, subject to agreement of the competent authorities, EADS will be substituted for Aerospatiale Matra in the CAC 40 index.

The following table sets forth, for the periods indicated, the share price and trading volume of the Aerospatiale Matra shares, for which EADS shares were substituted upon Completion:

Trading Information

<u>Period</u>	<u>Share Price</u> (in Euro)	<u>Share Volume</u> (in Shares)
Six-month average (January 1 — June 30, 2000).....	21.23	329,818
One-month average (June 1 — June 30, 2000).....	22.91	419,443
One-day close (July 7, 2000).....	19.50	6,658,605

Source: Datastream

The Exchanges

The Paris Stock Exchange

Official trading of listed securities on the Paris Stock Exchange is transacted through authorized financial institutions that are members of the Paris Stock Exchange and takes place continuously on each business day from 9:00 a.m. through 5:00 p.m. (Paris time), with a pre-opening session from 8:30 a.m. through 9:00 a.m. (Paris time) during which transactions are recorded but not executed. Any trade effected after the close of a stock exchange session is recorded on the next Paris Stock Exchange trading day at the closing price for the relevant security at the end of the previous day's session. Paris Bourse^{SBF} SA (the "SBF") publishes a daily Official Price List that includes price information concerning listed securities. The Paris Stock Exchange has introduced continuous trading during trading hours by computer for most listed securities.

In France, the securities of most large public companies are listed on the *Premier Marché*, with the *Second Marché* available for small- and medium-sized companies. Both the *Premier Marché* and the *Second Marché* operate under the auspices of the SBF. Securities may also be traded on the *Nouveau Marché*, a regulated electronic market managed and operated by the SBF, and designed primarily for small capitalization and start-up companies. Securities listed on the *Premier Marché* of the Paris Stock Exchange are placed in one of three categories depending on the volume of transactions. Upon listing, it is expected that the Shares will be listed in the category known as *Continu A*, which includes the most actively traded securities (with a minimum daily trading volume of FF 250,000 or twenty trades).

The SBF may suspend trading in securities listed on the *Premier Marché* if quoted prices exceed certain price limits defined by the SBF regulations. In particular, if the quoted price of a *Continu A* security varies by more than 10% from the previous day's closing price, trading may be suspended for up to 15 minutes. Further suspensions for up to 15 minutes are also possible if the price again varies by more than 5%. The SBF may also suspend trading of a security listed on the *Premier Marché* in certain other limited circumstances, including, for example, the occurrence of unusual trading activity in such security.

Trades of securities listed on the *Premier Marché* are settled in either of two ways: in the cash settlement market (*marché au comptant*) or in the monthly settlement market (*marché à règlement mensuel*). It is expected that the Shares will be settled in the monthly settlement market. In the monthly settlement market, the purchaser may elect to settle on the third trading day following the trade (*règlement immédiat* or immediate settlement), or may decide on the determination date (*date de liquidation*, which is the sixth trading day prior to the end of the month) either (1) to settle the trade no later than on the last trading day of such month or (2) upon payment of an additional fee, to extend to the determination date of the following month the option either to settle no later than

the last trading day of such month or to postpone further the selection of a settlement date until the next determination date (a procedure known as *report*). The purchaser may decide to renew its option on each subsequent determination date, subject to payment of an additional fee. Ownership of equity securities traded on the monthly settlement market is transferred at the time of registration of the securities in the appropriate shareholder's account. In accordance with French securities regulations, any sale of securities executed on the monthly settlement market during the month of a dividend payment date is deemed to occur after payment of the dividend. The account of a purchaser who purchases the securities prior to the date of the dividend payment will be credited with an amount equal to the dividend paid and the seller's account will be debited by the same amount.

The Frankfurt Stock Exchange

The Frankfurt Stock Exchange is operated by *Deutsche Börse AG* and is the most significant of the eight German stock exchanges. Its turnover volume accounted for approximately 78% of the total shares traded in Germany in 1999. The aggregate annual turnover of the Frankfurt Stock Exchange in 1999 for both equity and debt instruments, amounted to approximately Euro 4,078 billion (based on the Frankfurt Stock Exchange's practice of separately recording the sale and purchase components involved in any trade). As of December 31, 1999 the shares or other securities of 3,265 corporations, including 2,554 foreign corporations in all market segments, were listed on the Frankfurt Stock Exchange.

Trading on the floor takes place every business day between 9:00 a.m. and 8:00 p.m. Listed shares are usually traded according to supply and demand during this time. For all securities, an official single price quotation is established by way of an auction around midday on each day that the Frankfurt Stock Exchange is open for business. For less actively traded securities, the official single price quotation is the only price-fixing method. In addition, securities may also be traded between banks, outside the parameters of the stock exchange.

The stock brokers chamber, acting for the Frankfurt Stock Exchange publishes an official list daily of companies that sets forth the official daily price quotes, the highest and lowest price quotes for the previous year and the ongoing record of officially traded stocks.

Shares are also traded on the Exchange Electronic Trading System, known as Xetra.

Xetra is administered by *Deutsche Börse AG*. The securities that are currently traded through Xetra include substantially all of the stocks listed on the Frankfurt Stock Exchange. Banks and securities dealers who have been admitted to trading on at least one of Germany's stock exchanges may trade within the Xetra system. During regular trading hours, participants have access to an overview of all currently outstanding buy and sell orders via their computers. Trading of shares on Xetra takes place continuously on each business day between 9:00 a.m. and 8:00 p.m. Xetra is an integrated part of the Frankfurt Stock Exchange and is bound by its rules and regulations.

Transactions on the Frankfurt Stock Exchange must be settled on the second business day following the trade. Transactions off the Frankfurt Stock Exchange (which may occur where the transactions are larger or where one of the parties to the transaction is foreign) are generally also settled on the second business day following trading. The parties may agree to a different settlement period. A customer's orders to buy or sell listed securities must be executed on a stock exchange unless the customer gives specific instructions to the contrary.

The Frankfurt Stock Exchange can suspend a quotation if orderly stock exchange trading is temporarily threatened or if a suspension appears necessary in order to protect the public interest. The Hessian Stock Exchange Supervisory Authority, and the Trading Monitors of the Frankfurt Stock Exchange, which is under the control of the Stock Exchange Supervisory Authority, both monitor trading on the Frankfurt Stock Exchange. The Federal Supervisory Authority for Securities Trade, an independent federal authority, is responsible for generally supervising securities trading pursuant to the provisions of the German Securities Trading Act.

The Spanish Stock Exchanges

Trading in equity securities on the Spanish Stock Exchanges takes place principally through the Automated Quotation System.

Automated Quotation System

The Automated Quotation System links the four local exchanges, providing those securities listed on it with a uniform continuous market that eliminates certain of the differences among the local exchanges. The principal feature of the system is the computerized matching of buy and sell orders at the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or cancelled until executed. The

activity of the market can be continuously monitored by investors and brokers. The Automated Quotation System is quoted and regulated by Sociedad de Bolsas, S.A., a corporation owned by the companies that manage the local exchanges. All trades on the Automated Quotation System must be placed through a brokerage firm, an official stock broker or a dealer firm member of a Spanish stock exchange. As of January 1, 2000, Spanish banks have been able to place trades on the Automated Quotation System and become members of a Spanish stock exchange.

In a pre-opening session held from 8:30 a.m. to 9:00 a.m. each trading day, an opening price is established for each security traded on the Automated Quotation System based on orders placed at that time. The opening price must be within 15% of the previous day's closing price (such closing price being the reference price), provided that the Sociedad de Bolsas may, in its discretion, allow the opening price to vary by up to 20% from the previous day's closing price. In exceptional circumstances (including the inclusion of new securities on the Automated Quotation System) and after giving notice to the CNMV, the Sociedad de Bolsas may establish an opening price without regard to the reference price, alter the price range for permitted orders with respect to the reference price and modify the reference price. The computerized trading hours are from 9:00 a.m. to 5:30 p.m., during which time the trading price of a security is permitted to vary by up to 15% (or 20% with the authorization of the Sociedad de Bolsas) of the previous trading day's closing price. If the quoted price exceeds this limit, trading in the security is suspended until the next trading day.

Between 5:30 p.m. and 8:00 p.m., trades may occur outside the computerized matching system without prior authorization of the Sociedad de Bolsas, at a price within the range of 5% above the higher of the average price and closing price for the day and 5% below the lower of the average price and closing price for the day, if, among other things, the trade involves more than Euro 300,000 and more than 20% of the average daily trading volume of the stock during the preceding three months. At any time trades may take place (with the prior authorization of the Sociedad de Bolsas) at any price if certain requirements are met, including among others, the trade involves more than Euro 1.5 million and more than 40% of the average daily volume of the stock during the preceding three months.

Information with respect to the computerized trades is made public immediately and information with respect to trades outside the computerized matching system is reported to the Sociedad de Bolsas by the end of the trading day and published in the Boletín de Cotización and in the computer system by the beginning of the next trading day.

Applicable regulations in France, Germany and Spain

As a result of its listings in France, Germany and Spain the Company will also be subject to certain laws and regulations of these jurisdictions in relation to certain activities. The following is a summary of the main regulations relevant to the Company.

Purchase of and trading in own shares

French regulations

Pursuant to *Règlement n° 98-02 of the Commission des opérations de bourse* ("COB"), the purchase of own shares will require the filing of a *note d'information* that has received the approval (or "*visa*") of the COB.

Under *Règlement n° 90-04 of the COB*, as amended, a company may not trade in its own shares for the purpose of manipulating the market. *Règlement n° 90-04* also defines the conditions for a trade in own shares to be valid.

After making purchases of its own shares, a company is required to file monthly reports with the COB and the CMF that contain specified information about such purchases. The CMF makes this information publicly available.

German regulations

As a foreign issuer, EADS will not be subject to German rules on trading in its own shares, which only apply to German issuers.

Spanish regulations

Under the CNMV *Carta Circular 12/1998*, the Company may not trade in its own shares for the purpose of manipulating the market. The same regulation defines the conditions for a trade in own shares to be valid.

Additionally, under *Carta Circular 14/1998*, the Company will have to disclose as "relevant information" the resolutions of the general meetings of shareholders approving trading in own shares or its execution by the Board of Directors, as well as the adoption or execution of own share trading schemes.

Ongoing Disclosure Obligations

French regulations

A foreign issuer must take all necessary measures to enable shareholders to manage their investments, and to exercise their rights. Pursuant to *Règlements* n° 98-01 and 98-07 of the COB:

- the Company will be required to inform its shareholders of (i) all forthcoming shareholders' meetings and of the various ways for them to exercise their rights; (ii) payments of dividends; and (iii) issue of new shares, subscription, allocation, renunciation, or conversion of shares;
- the Company will also need to (i) inform the public of any modifications in its shareholder structure compared to the latest published data; (ii) publish any relevant information concerning its activities and results for the first half of its financial year within four months of the end of the first half of the financial year; (iii) publish its annual accounts, and consolidated accounts and the management report, within six months of the end of the financial year; and (iv) inform the public of all modifications of the rights attached to each category of shares;
- the Company will be required to inform the COB of any contemplated amendments of its Articles of Association;
- furthermore, the Company will be required to provide simultaneously in France the same information as that given abroad.

Like French issuers, the Company will be able to prepare a *document de référence*, the purpose of which is to provide legal and financial information on the issuer (shareholding, activities, management, recent events, possible evolution and other financial information), but no information concerning a particular securities issue. In practice, the annual report of the Company may be used as a *document de référence* since it contains the required information.

The *document de référence* must be registered with the COB and, once registered, is made available to the public.

German regulations

Pursuant to §§ 53 *et seq.* and 65 of the German Stock Exchange Admissions Regulation, the Company will be required to promptly make available its statement of annual accounts and its management report as soon as these have been produced, insofar as these are not published nationally. If the Company produces its own statement of annual accounts in addition to a consolidated one, both types must be made available. The stock exchange admissions authority may allow summaries or truncations in the statement of annual accounts provided that the provision of sufficient information to the public is guaranteed.

In addition, the Company will be required to publish an interim report. Such report must inform investors and potential investors about the developments of the Company's business during the first six months of the fiscal year and must also enable them to compare these developments with the results of the previous year. The interim report must be published within a period of two months after the end of the first six month period of the Company's current fiscal year, in at least one official national stock exchange newspaper, the Federal Gazette (*Bundesanzeiger*) or as a printed newsletter that is available to the public free of charge upon request. The report must also be given to the stock exchange admissions authorities of those exchanges where the shares are to be officially listed.

Pursuant to §§ 63 *and seq.* of the German Stock Exchange Admissions Regulation, the Company will be required to inform the public and the stock exchange admissions authorities of certain developments or changes that affect the Company or the shares.

The Company will also be obliged to inform the stock exchange admissions authorities about all material events arising from or affecting its legal situation. For that reason, all announcements concerning events that may be of interest to shareholders, such as the assembly of the general shareholders' meeting (*Hauptversammlung*), announcements concerning determinations and payments of dividends, the issuance of new shares and the exercise of conversion, warrant and subscription rights, must be published in an official stock exchange newsletter. The Company will, furthermore, be required to publish without delay all changes concerning rights that are connected with securities.

Spanish regulations

Pursuant to the Ministerial Order of January 18, 1991 the Company will be required to file with the CNMV and with the relevant Spanish stock exchange authorities (who will disclose it to the market), relevant information regarding its financial situation for each half year and which will be communicated, for each June 30 and December 31, no later than the following September 1 and March 1 respectively. If after this communication the annual accounts are produced by the Board of Directors and they do not conform with the half-yearly information, the Board must disclose this inconsistency in the following ten trading days. An exemption from the obligation to publish quarterly information of a financial or economic nature has been obtained from the CNMV.

Disclosure of Specific Information

French regulations

Pursuant to *Règlement* n° 98-07 of the COB, any information that could have a significant effect on the market value of the Company's shares will need to be disclosed to the public.

The COB may request that the Company or any third party disclose any information relevant in respect of the investors' protection and of the functioning of the market. If such requests are not satisfied, the COB may itself disclose such information.

The party responsible for the disclosure of relevant information may decide not to reveal it if (i) it is able to ensure confidentiality of such information; and (ii) it considers that confidentiality is necessary (a) should the party be the Company, on the grounds that confidentiality is necessary to preserve its legitimate interests; or (b) should the party be a third party, on the grounds that confidentiality is necessary to achieve completion of a transaction.

German regulations

Pursuant to § 15 of the German Securities Trading Act, the Company will be required to publish, without delay, such information that has become available to it and that has not become known to the general public, if such information is, due to its effect on the Company's holdings, finances or general business, likely to have a material impact on its share price.

The Company will need, prior to publication, to disclose such information to the Federal Securities Trading Supervisory authority (*Bundesaufsichtsamt für den Wertpapierhandel*) as well as the Board of Directors of the authorities supervising the regulated markets on which the Company's shares are admitted to trading.

Spanish regulations

Pursuant to article 82 of the Spanish Securities Act 24/1998 of July 28, 1988, the Company will be required to make public, as soon as possible, any fact or decision that may substantially affect the quotation of its shares. CNMV's *Carta Circular 14/1998* states that information is deemed to be relevant when, if known by a "reasonable investor", it would affect its decision to trade. Relevant events must be notified to the CNMV, to be recorded by the most rapid and efficient way, always prior to its communication to third parties or other means of publication and, if possible, after closing of the market. Under certain circumstances, the CNMV may authorize the issuer not to make public relevant information which may affect its legitimate interests.

Mandatory Tender Offers

Spanish securities legislation sets forth specific provisions which are applicable in the event an investor acquires directly or indirectly certain percentages of the share capital of a company listed on a Spanish Stock Exchange, because they are deemed to be significant. These provisions, set forth in article 1 of the Royal Decree 1197/1991, of July 26, regarding Takeover Bids, provide that said investor will have to offer to acquire the following percentages: if the investor acquires 25% (of the shares, or other securities such as subscription rights, convertible debentures, warrants, or any other similar securities that may directly or indirectly entitle such investor to subscribe or acquire shares) or, if the investor already holds between 25% and 50%, and intends to purchase an additional 6% within the following 12 months, the offer must be for at least 10%; and (ii) for at least 75% in case the investor reaches or exceeds the threshold of 50%. Given the different thresholds set forth in article 1 of the Royal Decree 1197/1991 and in article 15 of the Articles of Association of EADS (which in short requires, in principle, that a tender offer for 100% of the share capital be launched in the event a shareholder controls (alone, or in concert with other shareholders) directly or indirectly a number of shares or votes exceeding 33 and 1/3% of the share capital of EADS, as described in "Description of Shares — Mandatory Offer", SEPI, a minority shareholder of EADS, taking the stand that the Royal Decree 1197/1991 is not applicable to EADS, as it is a Dutch company

which is going to request its admission to listing in three different countries (Spain, France and Germany) and the Articles of Association of which duly provide that a tender offer must be launched whenever control of 33 and $\frac{1}{3}\%$ of the share capital is taken, has, on behalf of EADS, consulted this issue with the Spanish Securities Exchange Commission, who has confirmed in writing that “the event posed does not fall within those contemplated in the aforementioned Royal Decree 1197/1991” and, therefore, said Royal Decree 1197/1991 is not applicable to EADS.

In addition, the CNMV, responding to a request from certain selling shareholders of EADS, stated in a letter dated June 19, 2000 that the Royal Decree 1197/91 dated 26 July 1991 relating to takeover bids does not apply to transfers of shares between parties in the EADS shareholders agreement, provided such transfers are made within the framework of the shareholders agreement and that such agreement remains in force.

Notices of General Meetings of Shareholders

Holders of shares that are registered in the register kept in Amsterdam have the option of holding them through SICOVAM. In this case the shares are registered in the name of SICOVAM.

Shareholders holding their EADS shares through SICOVAM who wish to attend general meetings will have to request from their financial intermediary or accountholder an admission card and be given a proxy to this effect from SICOVAM in accordance with the instructions specified by the Company in the convening notice. For this purpose, a shareholder will also be able to request that it be registered directly (and not through SICOVAM) in the register of the Company. However, only shares registered in the name of SICOVAM may be traded on the stock exchanges.

In order to exercise their voting rights, the shareholders will also be able, by contacting their financial intermediary or accountholder, to give their voting instructions to SICOVAM or to any other person designated for this purpose, as specified by the Company in the convening notice.

TAXATION

Netherlands Taxation

The statements below represent a broad analysis of the present Netherlands tax laws. The description is limited to the material tax implications for a holder of Shares who is not, or is not deemed to be, a resident of The Netherlands for Netherlands tax purposes (a “Non resident Holder”). The statements below do not address special rules that may apply to certain categories of holders of Shares and it is not exhaustive. Certain categories of holders of the Company’s shares may be subject to special rules which are not addressed below and which may be substantially different from the general rules described below. Investors who are in doubt as to their tax position should consult their professional advisors.

Withholding Tax on Dividends

In general, a dividend distributed by the Company in respect of Shares will be subject to a withholding tax imposed by The Netherlands at a statutory rate of 25%. Dividends include dividends in cash or in kind, deemed and constructive dividends, repayment of paid-in capital not recognized as capital for Netherlands dividend withholding tax purposes, and liquidation proceeds in excess of the average paid-in capital recognized as capital for Netherlands dividend withholding tax purposes. Stock dividends paid out of the Company’s paid-in-share premium, recognized as capital for Netherlands dividend withholding tax purposes, will not be subject to this withholding tax.

A Non resident Holder of Shares can be eligible for a partial or complete exemption or refund of all or a portion of the above withholding tax under a tax convention that is in effect between The Netherlands and the Non resident Holder’s country of residence. The Netherlands has concluded such conventions with the United States, Canada, Switzerland, Japan, all European Union member states except Portugal, and other countries.

U.S. Tax Treaty

Under the Convention Between the United States of America and the Kingdom of the Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income dated 18 December 1992 (the “U.S. Tax Treaty”), dividends paid by the Company to a Non resident Holder, who is a resident of the United States as defined in the U.S. Tax Treaty and who is entitled to the benefits of the U.S. Tax Treaty under the provisions of article 26 (“limitation on benefits”) thereof, are generally eligible for a reduction of the 25% Netherlands withholding tax to 15% or, in the case of certain U.S. corporate shareholders owning at least 10% of the Company’s voting power, to 5%, provided that the dividends are not attributable to an enterprise or part thereof which is carried on through a permanent establishment or permanent representative in The Netherlands. The U.S. Tax Treaty provides for a complete exemption from tax on dividends received by qualifying exempt pension trusts and exempt organizations.

Except for exempt organizations as meant under article 36 of the U.S. Tax Treaty, such reduction in dividend withholding tax to 15% or such exemption from withholding tax, can be applied at the source upon payment of the dividends, provided that the Form IB 92 USA has been properly filed with the Company or the relevant paying agent in advance of the dividend payment. The Company will file a request with its competent tax inspector to apply the 15% rate at source; failing a reduction at source, a request for a refund in the name of the relevant Non resident Holder can be submitted by the Company. As an alternative, a U.S. Non resident Holder can obtain a refund by filing a Form IB 92 USA with the competent Netherlands tax authorities within three years from the end of the calendar year in which the withholding tax was levied. Organizations claiming an exemption from withholding tax under article 36 of the U.S. Tax Treaty will not be eligible for a reduction at source and will need to file for a refund with the competent Netherlands tax authorities as described above, making use of Form IB 95 USA.

French, German, and Spanish Tax Treaty

Under the Convention between the Republic of France and the Kingdom of The Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, concluded 16 March 1973, the Convention between the Federal Republic of Germany and the Kingdom of The Netherlands for the Avoidance of Double Taxation with respect to Income and Capital and Various Other Taxes and for the Regulation of Other Questions relating to Taxation, concluded 16 June 1959 or the Convention between the Government of the State of Spain and the Government of the Kingdom of The Netherlands for the Avoidance of Double Taxation with respect to Taxes on Income and Capital, concluded 16 June 1971, dividends paid by the Company to a Non resident Holder that is a resident of France, Germany or Spain as defined in the respective

convention are generally eligible for a reduction of the 25% Netherlands withholding tax to 15%, provided that the dividends are not attributable to an enterprise or part thereof which is carried on through a permanent establishment or permanent representative in The Netherlands.

Withholding Tax on Sale or Other Dispositions of Shares

Payments on the sale or other dispositions of Shares will not be subject to Netherlands withholding tax, unless the sale or other disposition is, or is deemed to be, made to the Company or a direct or indirect subsidiary of the Company. A redemption or sale to a direct or indirect subsidiary of the Company will be treated as dividend and will in principle be subject to the rules set forth in “Withholding Tax on Dividends” above.

Taxes on Income and Capital Gains

A Non resident Holder who receives dividends distributed by the Company on Shares or who realizes a gain from the sale or disposition of Shares, will not be subject to Netherlands taxation on the income or gain unless:

- (1) the income or capital gain is attributable to an enterprise or part thereof that is carried on through a permanent establishment or permanent representative in The Netherlands; or
- (2) the Non resident Holder holds, directly or indirectly, a substantial interest or a deemed substantial interest in the Company that does not form part of the assets of an enterprise; or
- (3) as of 1 January 2001, when new Netherlands tax legislation is effective, the Non resident Holder carries out investment management activities that exceed “normal active investment activities” in The Netherlands;

Generally, a Non resident Holder of Shares will not have a substantial interest in the Company’s share capital, unless the Non resident Holder, alone or together with certain related persons holds, jointly or severally and directly or indirectly, Shares in the Company, or a right to acquire Shares in the Company representing 5% or more of the Company’s total issued and outstanding share capital or any class thereof. A deemed substantial interest exists if all or part of a substantial interest has been or is deemed to have been disposed of with application of a roll-over relief.

Net Wealth Tax

Corporate Non resident Holders are not subject to Netherlands net wealth tax. Netherlands net wealth tax will not be levied on an individual Non resident Holder, unless the Shares are attributable to an enterprise or part thereof that is carried on through a permanent establishment or a permanent representative in The Netherlands. As of January 1, 2001, the net wealth tax will be abolished.

Gift or Inheritance Taxes

Netherlands gift or inheritance taxes will not be levied on the transfer of Shares by way of gift, or upon the death of a Non resident Holder, unless

- (1) the transfer is made by or on behalf of a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands; or
- (2) the Shares are attributable to an enterprise or part thereof that is carried on through a permanent establishment or a permanent representative in The Netherlands.

Value Added Tax

No Netherlands value added tax is imposed on dividends on the Shares or on the transfer of the Shares.

Other Taxes and Duties

There is no Dutch registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty other than court fees payable in The Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of The Netherlands) with respect to the dividends under the Shares or on the transfer of the Shares.

Residence

A Non resident Holder will not become resident, or deemed to be resident, in The Netherlands solely as a result of holding an ordinary share or of the execution, performance, delivery and/or enforcement of rights in respect of the ordinary shares

United States Federal Income Taxation

General

The following is a general summary of material United States federal income tax consequences to Holders (as defined below) of the purchase, ownership and disposition of Shares. This summary does not purport to consider all of the possible United States federal income tax consequences of the purchase, ownership and disposition of Shares and is not intended to reflect the individual tax position of any beneficial owner thereof. This summary is based upon the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed U.S. Treasury regulations promulgated thereunder, published rulings by the U.S. Internal Revenue Service (the “IRS”) and court decisions, as well as on the U.S. Tax Treaty (as defined in — Taxation — Netherlands Taxation — U.S. Tax Treaty), all in effect as of the date hereof, all of which authorities are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively. This summary is limited to initial purchasers of Shares that will be investors who hold Shares as capital assets within the meaning of section 1221 of the Code (i.e., generally, property held for investment) and does not purport to deal with investors in special tax situations, such as financial institutions, tax exempt organizations, insurance companies, banks, regulated investment companies, dealers in securities or currencies, U.S. Holders who hold (directly or indirectly) 10% or more of EADS’s voting stock or of any class of our stock, investors holding Shares as a hedge against risk or as a position in a straddle, integrated, conversion, or constructive sale transaction for U.S. federal income tax purposes, Holders whose functional currency (as defined in section 985 of the Code) is not the U.S. dollar, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, or traders in securities that elect to mark to market. This summary does not address state, local, foreign or other tax laws that might be applicable to any holder of the Shares.

Prospective purchasers of Shares should consult their own tax advisors concerning the application of United States federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of Shares arising under the laws of any other taxing jurisdiction.

As used herein, the term U.S. Holder means a beneficial owner of Shares who or which is (i) an individual who is a citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons (as defined in the Code) have the authority to control all substantial decisions, or (iv) an estate or any other person (as defined by the Code) the income of which or whom is subject to United States federal income taxation regardless of its source.

As used in this section, the term Non-U.S. Holder means a beneficial owner of Shares that is not a U.S. Holder. In the case of a beneficial owner of Shares that is a partnership for United States federal income tax purposes, each partner will take into account its allocable share of income or loss from the Shares, and will take such income or loss into account under the rules of taxation applicable to such partner, taking into account the activities of the partnership and the partner.

U.S. Holders of Shares

Distributions on Shares

Subject to the passive foreign investment company discussion below, a U.S. Holder generally will be required to include in gross income as ordinary dividend income the gross amount of any distributions paid on the Shares (including the amount of Netherlands taxes withheld) to the extent that such distributions are paid out of the EADS’s current or accumulated earnings and profits as determined for United States federal income tax purposes. Distributions in excess of EADS’s current and accumulated earnings and profits will be applied, for U.S. federal income tax purposes, first as a nontaxable return on capital to the extent of the U.S. Holder’s basis in the Shares (thus reducing such U.S. Holder’s tax basis in its Shares) and then, to the extent in excess of such tax basis, as gain from the sale or exchange of such Shares. Such dividends will not qualify for the dividends-received deduction applicable in certain cases to U.S. corporations.

Dividends paid in a foreign currency (including the amount of any Netherlands taxes withheld therefrom) will be includable in the income of a U.S. Holder in the U.S. dollar amount as determined by the exchange rate in the effect on the day the dividends are actually or constructively received by the U.S. Holder, whether or not the dividends are converted into U.S. dollars. In addition, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend is includable in the income of the U.S. Holder to the date such payment is converted into U.S. dollars will be exchange gain or loss that is treated as ordinary income or loss and will generally be U.S. source gain or loss for foreign tax credit purposes.

Foreign Tax Credit Considerations

Subject to the limitations set forth in the Code, a U.S. Holder may elect to claim a foreign tax credit against its U.S. federal income tax liability for any Netherlands income tax withheld from dividends received in respect of Shares. A U.S. Holder who does not elect to claim a foreign tax credit may instead claim a deduction on its United States federal income tax return for any foreign income tax withheld, but only for a year in which the U.S. Holder elects to claim such deduction, instead of claiming a credit, with respect to all foreign income taxes.

For purposes of calculating a U.S. Holder's United States foreign tax credit limitation, dividends paid by EADS generally will be treated as foreign source passive income, or, in certain cases, financial services income.

In addition, a U.S. Holder will not be entitled to a deduction or foreign tax credit with respect to foreign tax that may be refunded to a U.S. Holder pursuant to the U.S. Tax Treaty or under Netherlands tax law. Accordingly, a U.S. Holder who is eligible for, but does not apply to receive, such a refund will not be able to claim a deduction or foreign tax credit for that portion of Netherlands taxes withheld in excess of 15% of the dividend, and the deduction or credit may be further limited to the extent that the U.S. Holder is entitled to, but fails to apply for or to exhaust, all practical and effective remedies for, any additional refund of Netherlands tax withheld under the provisions of Netherlands law.

Foreign tax credits will generally not be allowed for withholding taxes imposed on short-term or hedged positions in securities or on arrangements where a U.S. Holder's expected economic profit, after non-U.S. taxes, is insubstantial.

EADS expects to fund dividend distributions on the Shares with dividends received from its subsidiaries organised outside The Netherlands. Under special Netherlands tax rules applicable to international holding company structures, EADS may be entitled in certain circumstances to reduce the amount of taxes that it otherwise would be obliged to pay to the Dutch tax authorities by an amount equal to 3 percent of the lesser of the dividends that it receives from its foreign subsidiaries and the net dividends that it pays to its shareholders. There is no authority directly addressing the implications of these special tax rules for the taxation of dividends paid to U.S. holders. It is possible that the foreign tax credits otherwise allowable for U.S. tax purposes in respect of Dutch withholding taxes on dividend income would be reduced by the proportion of the Dutch tax saving realised by EADS that is measured by reference to those dividends. EADS will advise U.S. holders if it claims the benefits of this reduction in respect of dividends on Shares.

The rules relating to the determination of the United States foreign tax credit are complex, and each prospective purchaser who would be a U.S. Holder should consult its own tax advisor to determine whether and to what extent such purchaser would be entitled to such foreign tax credit.

Sale or Other Disposition of Shares

Subject to the passive foreign investment company discussion below, upon the sale or exchange of Shares, a U.S. Holder generally will recognize gain or loss, for United States federal income tax purposes, equal to the difference between the amount realized (if the amount realized is denominated in foreign currency, then in the U.S. dollar equivalents determined at the spot rate on the date of disposition) on the sale or other disposition and the U.S. Holder's adjusted tax basis in the Shares (as determined in U.S. dollars). Such capital gain or loss recognized by an individual U.S. Holder generally will be subject to U.S. federal income tax at a maximum rate of 20% if the U.S. Holder held the Shares for more than one year before such sale or other disposition. U.S. Holders that are corporations are taxed on their net capital gains at the regular corporate income tax rates. Gain realized by a U.S. Holder on the sale or exchange of Shares generally will be treated as U.S. source gain for U.S. foreign tax credit purposes. Losses will generally be allocated against U.S. source income.

Passive Foreign Investment Company

EADS does not believe that it should be treated as a PFIC for U.S. federal income tax purposes as of the date of this offering memorandum but EADS's possible status as a PFIC must be determined annually and therefore may

be subject to change. If EADS were to be treated as a PFIC, however, gain realized on the sale or other disposition of a U.S. Holder's shares would in general not be treated as capital gain, unless the U.S. Holder has elected to be taxed annually on a mark-to-market basis with respect to the shares. Instead, the U.S. Holder would be treated as having realized such gain and certain "excess distributions" ratably over its holding period of the shares and, for amounts allocated to years during or after which EADS is a PFIC, would be taxed at the highest rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year.

Transfer Reporting Requirements

Under recently promulgated regulations, a U.S. Holder (including a tax exempt entity) that purchases Shares for cash will be required to file an IRS Form 926 or similar form with the IRS, if the purchase occurs during a taxable year of such U.S. Holder beginning after February 5, 1999 and (i) such U.S. Holder owned, directly or by attribution, immediately after the transfer at least 10% by vote or value of EADS or (ii) the purchase, when aggregated with all purchases made by such U.S. Holder (or any related person thereto) within the preceding 12 month period, exceeds \$100,000. If a U.S. Holder fails to file any such required form, the U.S. Holder could be required to pay a penalty equal to 10% of the gross amount paid for the Shares (subject to a maximum penalty of \$100,000, except in cases involving intentional disregard). U.S. Holders should consult their tax advisors with respect to this or any other reporting requirement which may apply with respect to their acquisition of the Shares.

Non-U.S. Holders of Shares

In general, subject to the discussion below of backup withholding:

- distributions to Non-U.S. Holders in respect of EADS Shares will not be subject to U.S. federal income or withholding tax, and
- gain realized by a Non-U.S. Holder on the sale or exchange of EADS Shares will not be subject to U.S. federal income tax or withholding tax, provided that such Non-U.S. Holder is not (i) engaged in a U.S. trade or business, (ii) a former citizen or long-term resident of the U.S., (iii) a "controlled foreign corporation", (iv) a "foreign personal holding company", (v) a corporation which accumulates earnings to avoid U.S. federal income tax, or (vi) an individual who is present in the U.S. for 183 days or more during a taxable year.

We suggest that Non-U.S. Holders consult their U.S. tax advisors before purchasing EADS Shares.

Backup Withholding and Information Reporting

Distributions made in respect of EADS Shares, and proceeds from the sale or other disposition of EADS Shares, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be subject to information reporting requirements. If information reporting requirements apply, distributions made to the U.S. Holder will be reported to the IRS and to the U.S. Holder as may be required under applicable Treasury regulations. Backup withholding at a rate of 31% will also apply to any payments made to a U.S. Holder if such U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status. In addition, certain penalties may be imposed by the IRS on a U.S. Holder that is required to supply such information but that does not do so in the manner required.

Information reporting and backup withholding are generally not required with respect to payments made by a U.S. paying agent or other U.S. intermediary to certain exempt U.S. Holders (e.g. corporations and tax-exempt organizations) and Non-U.S. Holders, provided Non-U.S. Holders file a timely and properly completed IRS Form W-8BEN with the U.S. paying agent or intermediary. Any amount withheld under the backup withholding rules will be allowed as a refund or credit against a holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

The Treasury Department has issued final regulations (the "Final Regulations") which, among other things, affect the procedures to be followed by a Non-U.S. Holder in establishing such Non-U.S. Holder's exemption for the purpose of the backup withholding rules discussed above. The Final Regulations generally will be effective for payments made after December 31, 2000. Prospective investors are advised to consult their own tax advisors concerning the effect of the Final Regulations on their purchase, ownership and disposition of the EADS Shares.

UNDERWRITING

The following are parties to an underwriting agreement with respect to the Shares: (a) EADS, (b) the French State, Lagardère, MCP, and the French Financial Institutions, which are the selling shareholders, (c) SOGEP, Daimler-Chrysler and SEPI, which are principal shareholders of EADS, and (d) the underwriters named below and their qualified affiliates. ABN AMRO Rothschild and Deutsche Bank are acting as the representatives for the underwriters in the global offering. Subject to the conditions set forth in the underwriting agreement, EADS, the French State, Lagardère and the French Financial Institutions have agreed to sell to the following underwriters an aggregate of 132,585,022 Shares.

Underwriters

Global Institutional Offering

ABN AMRO Rothschild*
Deutsche Bank Aktiengesellschaft
BNP PARIBAS
Goldman Sachs International
Société Générale
Robert Fleming & Co. Limited
Santander Central Hispano Investment S.A.
Banco Bilbao Vizcaya Argentaria, S.A.
Crédit Lyonnais
Dresdner Bank AG
J.P. Morgan Securities Ltd.
Banca d'Intermediazione Mobiliare IMI S.p.A.
Bayerische Hypo- und Vereinsbank Aktiengesellschaft
Bayerische Landesbank Girozentrale
Crédit Agricole Indosuez Lazard Capital Markets
Crédit Industriel et Commercial (CIC)
Nomura International plc

Retail Offering

BNP PARIBAS
Deutsche Bank Aktiengesellschaft
Santander Central Hispano Investment S.A.
ABN AMRO Rothschild*
Banco Bilbao Vizcaya Argentaria, S.A.
Banco Popular Español S.A.
Bankinter S.A.
Caja de Ahorros y Monte de Piedad de Madrid
Confederación Española de Cajas de Ahorro
CDC Marchés
COMMERZBANK Aktiengesellschaft
Crédit Agricole Indosuez Lazard Capital Markets
Crédit Industriel et Commercial (CIC)
Crédit Lyonnais
DG BANK Deutsche Genossenschaftsbank AG
Landesbank Baden-Württemberg
Natexis Capital
Société Générale
Westdeutsche Landesbank Girozentrale
Baden-Württembergische Bank Aktiengesellschaft
Banco Zaragozano S.A.
Bankgesellschaft Berlin Aktiengesellschaft
Banque Fédérative du Crédit Mutuel (BFCM)

* In Germany, ABN AMRO Bank (Deutschland) AG acts for the account of ABN AMRO Rothschild, the Equity Capital Markets Joint Venture of ABN AMRO Bank N.V. (Amsterdam) and N M Rothschild & Sons Limited (London).

Bayerische Hypo- und Vereinsbank Aktiengesellschaft
Bayerische Landesbank Girozentrale
Bilbao Bizkaia Kutxa, Aurrezki Kuxta eta Bahitetxea
CCF Charterhouse
Dresdner Bank AG
HSBC Trinkaus & Burkhardt Kommanditgesellschaft auf Aktien
Renta 4 S.V.B., S.A.
Union de Garantie et de Placement (UGP)

The Shares offered by these underwriters constitute part of a global offering to:

- institutional investors in Europe, the United States and other jurisdictions,
- the public in France, Germany and Spain and
- qualifying employees of the EADS group.

The Shares being offered in the institutional and public offerings are indicated above. Shares offered in the employee offering are not being underwritten.

The global offering was conditional upon the Completion, which occurred on the date of this offering memorandum, as described in "Description of the EADS Transaction."

Under the terms and conditions of the underwriting agreement, the underwriters are obligated, severally and not jointly, to take and pay for all of the Shares up to their respective underwriting commitments. The effective completion of EADS' sale of newly-issued Shares is irrevocably underwritten, severally and not jointly, by the underwriters up to their respective underwriting commitments. In accordance with market practice, the underwriting agreement contains certain provisions enabling the underwriters to terminate such agreement in the case of the occurrence of grave events beyond the control of the underwriters that may prevent the realization of the global offering.

If the underwriters sell more shares than the total number set forth above, the underwriters have an option to purchase up to an additional 21,721,006 Shares from EADS and the selling shareholders to cover such sales (known as over-allotments). This over-allotment option may be exercised by the Joint Global Bookrunners following consultation with the other Joint Global Coordinators. Within 30 days after the initial day of trading of the Shares, they may exercise the over-allotment option at a price per Share equal to the offering price. In the event of a partial exercise of the underwriters' over-allotment option, shares will be provided

- first, proportionally by the Company and the French State;
- then by Lagardère; and
- finally by the French Financial Institutions.

Each underwriter of the institutional offering may offer and sell Shares anywhere in the world where it is legally permitted to do so, except in Japan (where only ABN AMRO Rothschild, Deutsche Bank Aktiengesellschaft, BNP PARIBAS, Goldman Sachs International, Société Générale and Nomura International plc are permitted to offer and sell Shares). There are no minimum or maximum limits on how many shares may be offered or sold in any particular country or region. The underwriters have agreed that they may sell Shares among the members of the underwriting group.

Offers to purchase Shares are being made to the public in France, Germany and Spain by the respective retail underwriters for such countries. All sales of Shares in the United States are being made through U.S. registered broker-dealers.

Shares are being initially offered to institutional investors at the institutional offering price set forth on the cover page of this offering memorandum. This price was determined on July 8, 2000 and will be announced on or before July 10, 2000.

Eligible individuals in France, Germany and Spain are being offered Shares at a price that is Euro 1.00 less than the price per Share offered to institutional investors. In addition, qualifying employees of the EADS group are being offered Shares at the retail offering price, less a further discount of 15%.

EADS and the selling shareholders will pay to the underwriters total commissions equal to approximately Euro 82.0 million (including Euro 51.9 million to be paid by EADS), assuming the over-allotment option is exercised in full. In addition, EADS and the selling shareholders may, in their sole discretion, pay to the underwriters an additional performance-related commission of up to approximately Euro 2.7 million (assuming the

over-allotment option is not exercised). The Shares of the selling shareholders are only being sold in the institutional offering. The estimated expenses of EADS in connection with the issuance and distribution of the Shares are Euro 36.0 million, including reimbursement of certain expenses of the underwriters.

The aggregate number of Shares to be sold to retail investors in the public offering in France, Germany and Spain was determined on July 8, 2000. This amount of Shares is being preferentially allocated by the underwriters to:

- eligible shareholders of Aerospatiale Matra; and
- individuals who submitted orders on or before July 3, 2000.

Each eligible shareholder of Aerospatiale Matra has been guaranteed a minimum allocation of 40 Shares (or, if less, the number of Shares for which such person made an offer), so long as the total number of Shares allocated to fulfill all such guarantees does not exceed 12 million. This maximum has been surpassed, so the guaranteed minimum allocation will be proportionally reduced, subject to rounding adjustments to eliminate fractional Shares. In addition, any individual (including an eligible shareholder of Aerospatiale Matra) who made, on or before July 3, 2000 a valid order to purchase Shares is being granted a preferential allocation for 300 Shares (or, if less, the amount of his order). (Eligible shareholders of Aerospatiale Matra are being given this preferential allocation, as well as the minimum allocation for such shareholders). A retail investor is having the preferred part of his early order fulfilled in full or in a proportion that is at least 2 times greater than the proportion of any other order (or other portion of an order) satisfied in the public offering to retail investors (excluding minimum allocations to eligible shareholders of Aerospatiale Matra). The same allocation procedure applies to retail orders from France, Germany and Spain.

Prior to this offering, there has been no public market for the Shares. The offering prices for the Shares were determined by EADS and the principal shareholders in coordination with the representatives of the underwriters. The factors considered in determining the offering prices were prevailing market and economic conditions, the historical performance of Aerospatiale Matra, Dasa and CASA, the price of Aerospatiale Matra shares listed on the Paris Stock Exchange, market valuations of other companies in related businesses, estimates of EADS' business potential and prospects, the management of EADS and other factors deemed relevant.

EADS expects to list its shares under the symbol "EAD" on the *Premier Marché* of ParisBourse^{SBF} SA, in *amtlicher Handel* on the *Frankfurter Wertpapierbörse* and on the Spanish Stock Exchanges. "When issued" trading of the Shares on the Paris, Frankfurt and Spanish Stock Exchanges is expected to commence on July 10, 2000.

It is expected that delivery of the Shares will be made against payment thereof in immediately available funds on or about July 13, 2000. The Shares will be delivered in book-entry form through the facilities of SICOVAM S.A., Clearstream Banking AG, *Servicio de Compensación y Liquidación de Valores, S.A.*, Euroclear and Clearstream Banking S.A. (formerly Cedelbank). The Shares sold by EADS in the employee offering will be delivered on or before August 31, 2000. For further details on the employee offering, see "Management — Employee Share Offering."

Each of EADS and the French State, SOGEPa, Lagardère, MCP, SOGEADE, the French Financial Institutions, DaimlerChrysler, Dasa AG and SEPI has agreed that, during a period of 180 days from the date of this offering memorandum, it will not, without the prior written consent of the representatives of the underwriters,

- (a) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of EADS common stock or any securities convertible into or exercisable or exchangeable for EADS common stock or file any registration statement under the U.S. Securities Act or prospectus under the laws of another jurisdiction with respect to any of the foregoing or
- (b) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of EADS common stock,

whether any such swap or transaction described in clause (a) or (b) above is to be settled by delivery of common stock or such other securities, in cash or otherwise, or

- (c) undertake a share capital increase out of the authorized capital or propose a capital increase for approval at a general shareholders meeting of EADS.

The foregoing lock-up agreement does not apply to (1) Shares to be sold in the global offering or (2) shares issued upon exercise of stock options granted under stock option plans of EADS existing on the date of the closing of this offering or (3) bonus shares to be distributed without payment of consideration by the French state to former shareholders of Aerospatiale Matra who had rights to receive loyalty bonus shares of Aerospatiale Matra. In

addition, after 5 days prior written notice to the representatives of the underwriters, EADS will be permitted to issue equity securities in connection with (i) a merger of EADS with or into another entity, provided that EADS is the surviving entity and (ii) acquisitions of assets by EADS, in each case not involving a public offering or private placement of securities (it being understood that EADS should be authorized to carry out capital increases reserved to one or several industrial investors). Any shares of common stock or other securities issued pursuant to this exception will also be subject to a lock-up period of 180 days from the date of this offering memorandum under the restrictions of the lock-up agreement.

In connection with this offering, the underwriters may purchase and sell Shares in the open market. These transactions may include short sales in connection with the offering, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the shares while the offering is in progress.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the Paris, Frankfurt and Spanish Stock Exchanges, in the over-the-counter market or otherwise.

In connection with settlement and stabilization, the selling shareholders have granted an option to the underwriters to borrow Shares up to an amount equal to the maximum number of Shares covered by the over-allotment option. The underwriters will use any borrowed Shares to satisfy delivery obligations in respect of syndicate short positions created in connection with the distribution of the Shares. Any borrowed Shares will be returned to the selling shareholders after these positions have been covered through the exercise of the underwriters' over-allotment option or through open market purchases.

This prospectus may be used by the underwriters and other dealers in connection with offers and sales of the Shares, including sales of Shares initially sold by the underwriters in the offering being made outside of the United States, to persons located in the United States. Offers and sales of Shares being sold outside the United States in this offering are being made in reliance on Regulation S under the U.S. Securities Act.

French-language, German-language and Spanish-language prospectuses in electronic format will be made available on the website of EADS (except to U.S. persons that do not constitute qualified institutional buyers within the meaning of Rule 144A under the U.S. Securities Act). Retail investors that have accounts with certain on-line brokers participating in the public offering in France, Germany and Spain were able to place orders for Shares over the Internet through such brokers.

EADS, the selling shareholders and principal shareholders of EADS have agreed to indemnify the underwriters against certain liabilities, including certain liabilities under the U.S. Securities Act.

Certain of the underwriters (and/or certain of their respective affiliates) have performed services for and have banking relationships with EADS, Aerospatiale Matra, Dasa or CASA in the ordinary course of their businesses. Crédit Agricole Indosuez Lazard Capital Markets' affiliate, Lazard Frères et Cie, is acting as advisor to Aerospatiale Matra, and Rothschild et Cie, which is one of the joint venture partners in ABN AMRO Rothschild, is acting as advisor to the French State in the transaction. Goldman Sachs International is acting as advisor to DaimlerChrysler and Dasa AG, and Robert Fleming & Co. Limited as advisor to Lagardère. Robert Fleming & Co. Limited is also financial advisor to EADS. BNP PARIBAS is a selling shareholder, as well as an underwriter.

Stamp Taxes

Purchasers of Shares may be required to pay stamp taxes and other charges in accordance with the laws and practices of each country of purchase in addition to the offering price.

Selling Restrictions

United States

The Shares have not been registered under the United States Securities Act and may not be offered or sold within the U.S. or to or for the benefit of any U.S. person unless the offer or sale would qualify for an exemption from such registration. Accordingly, the Shares are being offered (1) in the U.S. only to qualified institutional buyers (as defined in Rule 144A of the U.S. Securities Act) and (2) outside of the U.S. in reliance on Regulation S under the U.S. Securities Act and the laws of the other jurisdictions that apply to such offers. Prospective purchasers are hereby notified that the sellers of the Shares may be relying on the exemption from the provisions of Section 5 of

the U.S. Securities Act provided by Rule 144A. For a summary of certain restrictions on transfer of the Shares, see “Transfer Restrictions.”

United Kingdom

Each underwriter has warranted and undertaken that: (a) it has not offered or sold and prior to six months after the date the Shares are acquired by the underwriter will not offer or sell any Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended), (b) it has complied, and will comply, with all applicable provisions of the Financial Services Act of 1986 of Great Britain as amended with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom, and (c) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issuance of the Shares to authorized or exempt persons within the meaning of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended (or any order made thereunder) or to other persons of a kind described in Article 11(3) (other than 11(3)(c)) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended, or is a person to whom the document may otherwise lawfully be issued or passed on.

Japan

Each underwriter severally represents and agrees that it has not offered or sold, and will not offer or sell, any Shares, directly or indirectly, in Japan or to the benefit of any resident of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to any resident of Japan, except pursuant to an exemption from the registration requirements for private placement of the Securities and Exchange Law of Japan and otherwise in compliance with such law and other relevant laws and regulations of Japan.

ENFORCING CIVIL LIABILITIES

EADS is a Dutch public limited liability company (*naamloze vennootschap*), and its executive offices and a substantial portion of its assets are located outside the United States. In addition, the French State, Lagardère, the members of its management and the experts named herein may be residents of jurisdictions other than the United States. As a result, it may be difficult for investors to effect service within the United States upon EADS, the French State, Lagardère, members of its management or experts or to enforce outside the United States judgments obtained against such persons in courts in jurisdictions outside the United States, in any action, including actions predicated upon the civil liability provisions of the U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States, liabilities predicated upon the U.S. securities laws.

LEGAL MATTERS

The validity of the Shares will be passed upon for the Company by Clifford Chance, Dutch legal counsel to the Company, and for the underwriters by Nauta Dutilh, Dutch legal counsel to the underwriters. Certain legal matters will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, counsel to the underwriters.

INDEPENDENT AUDITORS

The consolidated financial statements of Aerospatiale Matra and the consolidated financial statements of Aerospatiale included in this offering memorandum on pages F-14 to F-44 have been audited by Ernst & Young Audit and Mazars & Guérard.

The consolidated financial statements of Matra Hautes Technologies included in this offering memorandum on pages F-55 to F-73 have been audited by Barbier Frinault & Autres and Mazars & Guérard.

The combined financial statements of Dasa as of December 31, 1999 and 1998, and for each of the years in the three-year period ended December 31, 1999, included in this offering memorandum on pages F-74 to F-98 have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Elektrastrasse 6, 81925 Munich, Germany, independent auditors, to the extent indicated in their report thereon.

The report of KPMG on the Dasa combined financial statements as of December 31, 1999 and 1998, and for each of the years in the three-year period ended December 31, 1999, contains a qualification as a result of a departure from United States generally accepted accounting principles ("U.S. GAAP") for Dasa's accounting for certain joint ventures in accordance with the proportionate method of consolidation. Under U.S. GAAP, such joint ventures would be accounted for using the equity method of accounting.

The financial statements of CASA included in this offering memorandum on pages F-99 to F-125 have been audited by Arthur Andersen y Cia, S. Com.

ADDITIONAL INFORMATION

Neither EADS nor any of its subsidiaries is required to file periodic reports under Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). EADS, however, will apply for an exemption from the filing requirements of the Exchange Act pursuant to Rule 12g3-2(b) thereunder and will furnish certain documents to the U.S. Securities and Exchange Commission pursuant to such rule. If, at any time, EADS is neither subject to Section 13(a) or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b), EADS will furnish, upon request, to any holder of Shares or any prospective purchaser designated by such shareholder, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act to facilitate resales of the shares pursuant to Rule 144A.

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EUROPEAN AERONAUTIC DEFENCE AND SPACE COMPANY EADS N.V.
UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The following unaudited pro forma combined statements of income, unaudited pro forma combined balance sheets and unaudited pro forma combined statement of cash flows for the European Aeronautic Defence and Space Company (collectively, the "Pro forma Combined Financial Information") have been prepared to illustrate the pro forma effects of the proposed transactions in accordance with International Accounting Standards, except as described in the following paragraph. The Pro forma Combined Financial Information has been prepared based on the separate, historical financial statements and historical financial statement reconciliations to International Accounting Standards of the combining companies included elsewhere in this prospectus and on the assumptions below and in the notes to the Pro forma Combined Financial Information. The unaudited pro forma combined statements of income give effect to the transactions as if they had occurred on January 1, 1997. The unaudited pro forma combined balance sheets give effect to the transactions as if they had occurred on December 31, 1999. The unaudited pro forma combined statement of cash flows gives effect to the transactions as if they had occurred on January 1, 1999.

EADS intends to present its future consolidated financial statements in accordance with International Accounting Standards, except that all development costs will be expensed as incurred. International Accounting Standards require that development costs be recognized as an expense in the period in which they are incurred unless certain criteria for asset recognition are met. As a result, the audit opinion of EADS will contain a qualification for this departure from International Accounting Standards.

International Accounting Standards differ in certain respects from the generally accepted accounting principles used in the preparation of historical financial statements of the combining companies. A general description of the differences between International Accounting Standards and French generally accepted accounting principles affecting the historical financial statements of Aerospatiale Matra and its combined companies is presented at "Summary of differences between Aerospatiale Matra accounting principles, IAS, and U.S. GAAP". A general description of the differences between International Accounting Standards and United States generally accepted accounting principles affecting the historical financial statements of Dasa⁽¹⁾ is presented at "Summary of differences between Dasa accounting principles, IAS and U.S. GAAP". A general description of the differences between International Accounting Standards and Spanish generally accepted accounting principles affecting the historical financial statements of CASA is presented at "Summary of differences between CASA accounting principles, IAS, and U.S. GAAP".

The Pro forma Combined Financial Information does not give effect to certain restructuring and rationalization costs expected to be incurred following the transactions. In addition, although EADS plans to realize cost reductions from the transactions and such restructuring and rationalization costs, no effect has been given in the pro forma combined financial statements to any such benefits. However, such cost reductions will be a function of numerous factors, and no assurance can be given that any such cost reduction will be realized over time.

For accounting purposes, the transactions will be treated as a business combination using the purchase method of accounting. As such, the balance sheets of Dasa and CASA have been revalued to fair value while the balance sheet of Aerospatiale Matra has been included at historical cost. Accordingly, for the purpose of these pro forma combined financial statements, the purchase prices of Dasa and CASA have been allocated on a preliminary basis to certain tangible assets, principally inventories and property, plant and equipment, based on their relative fair values. The fair value adjustments for property, plant and equipment have been depreciated over their estimated composite lives in the unaudited pro forma combined statements of income. The excess of the purchase prices of Dasa and CASA over the estimated fair values of their respective assets and liabilities is reflected in the pro forma combined balance sheets as "intangible assets" and has been amortized over an estimated composite life of 20 years in the unaudited pro forma combined statements of income.

The preliminary purchase price allocations were derived by EADS personnel using internal documentation regarding the fair values of assets acquired and liabilities assumed. After the transactions are completed, EADS intends to obtain independent third-party valuation studies to value the existing assets and liabilities and to allocate the excess purchase prices over the historical costs of the businesses acquired. EADS management expects that the amortization expenses for the fair value adjustments to property, plant and equipment and for goodwill will not vary materially from the amounts charged to operations once valuation studies have been completed and existing assets and liabilities have been recorded at their fair values.

(1) Every reference to the financial statements, income statements, balance sheets and cash flow statements of Dasa in this document refers to the combined financial statements of Dasa (as defined in note 1 of the "Notes To Combined Financial Statements" of Dasa) appearing elsewhere in this document.

The pro forma adjustments to the unaudited combined balance sheets and unaudited combined statement of cash flows recognize the decrease in cash and cash equivalents and increase in financial liabilities resulting from the planned distributions of €2,029 million and €342 million by Dasa and CASA, respectively, to their shareholders immediately prior to the transactions.

The Pro Forma Combined Financial Information is provided for illustrative purposes only and does not purport to represent what the financial position, results of operations or cash flows of EADS would actually have been if the transactions had in fact occurred as of the dates indicated or to project the combined financial position, results of operations or cash flows for any future date or period. The Pro Forma Combined Financial Information should be read in conjunction with the notes thereto and the separate, historical financial statements of the combining companies and related notes thereto contained elsewhere in this prospectus.

EUROPEAN AERONAUTIC DEFENCE AND SPACE COMPANY

**Unaudited Pro Forma Combining Balance Sheet
December 31, 1999**

	Aerospatiale Matra IAS	Dasa IAS	CASA IAS	Pro Forma Adjustments <small>(in millions of €)</small>	Eliminations	Pro Forma EADS
Assets						
Intangible assets	2,312	71	4	2 A (2)B 4,934 C 389 D	—	7,710
Property, plant and equipment, net	3,505	1,171	159	1,662 A (108)B 1,566 C 179 D 1 I	(185)K	7,950
Investments and long-term financial assets	2,401	334	29	1,099 A (7)B 37 C 43 F (5)H	—	3,931
Fixed assets	<u>8,218</u>	<u>1,576</u>	<u>192</u>			<u>19,591</u>
Inventories	150	533	129	(112)B 310 C 53 D 41 I 2 J	(61)K	1,045
Trade receivables	2,915	1,314	263	177 A (252)B 254 F 110 I 3 J	(275)K	4,509
Other receivables and other assets	1,268	1,529	31	1,521 A (52)B (29)E 42 I (54)B 55 A (144)B 66 F (2,091)G 2 I	(950)K	3,360
Securities	1,574	55	—		—	1,575
Cash and cash equivalents	759	3,958	570		—	3,175
Non-fixed assets	<u>6,666</u>	<u>7,389</u>	<u>993</u>			<u>13,664</u>
Deferred taxes	675	749	82	(27)B 108 E	147 K	1,734
Prepaid expenses	635	23	1	6 A (17)B 2 I 1 J	—	651
Total assets	<u>16,194</u>	<u>9,737</u>	<u>1,268</u>			<u>35,640</u>
Liabilities and stockholders' equity						
Stockholders' equity	1,778	2,397	507	(299)A 16 B 5,867 C 540 D (202)E 23 F (2,371)G 4 I 2 J	(139)K	8,123
Minority interests	<u>171</u>	<u>191</u>	<u>—</u>	(245)B 47 F (5)H	—	<u>159</u>
Accrued liabilities	2,413	4,446	63	623 A (190)B 5 C 6 F 2 I	53 K	7,421
Financial liabilities	3,681	217	110	1,597 A (139)B (15)C 280 G	(35)K	5,696
Trade liabilities	2,317	840	480	328 A (129)B 123 I 1 J	(226)K	3,734
Other liabilities	3,890	1,409	101	1,487 A (84)B 281 E 287 F 62 I 3 J	(1,020)K	6,416
Liabilities	<u>9,888</u>	<u>2,466</u>	<u>691</u>			<u>15,846</u>
Deferred taxes	2	224	5	990 C 81 D	43 K	1,345
Deferred income	1,942	13	2	786 A (4)B 7 I	—	2,746
Total liabilities	<u>14,416</u>	<u>7,340</u>	<u>761</u>			<u>27,517</u>
Total liabilities and stockholders' equity	<u>16,194</u>	<u>9,737</u>	<u>1,268</u>			<u>35,640</u>

See accompanying notes to unaudited pro forma combining financial statements.

EUROPEAN AERONAUTIC DEFENCE AND SPACE COMPANY

**Unaudited Pro Forma Combining Balance Sheet
December 31, 1998**

	Aerospatiale Matra IAS	Dasa IAS	CASA IAS	Pro Forma Adjustments	Eliminations	Pro Forma EADS
	(in millions of €)					
Assets						
Intangible assets.....	2,447	69	14	2 A (1)B 4,934 C 389 D	—	7,854
Property, plant and equipment, net.....	3,209	1,150	132	1,494 A (115)B 1,566 C 179 D 1 I	(164)K	7,452
Investments and long-term financial assets.....	2,141	231	28	567 A (2)B 37 C 109 F (2)H	—	3,109
Fixed assets	<u>7,797</u>	<u>1,450</u>	<u>174</u>			<u>18,415</u>
Inventories.....	660	423	187	(75)B 310 C 53 D 59 I 1 J	(117)K	1,501
Trade receivables.....	2,842	1,138	167	224 A (289)B 146 F 115 I 4 J	(278)K	4,069
Other receivables and other assets.....	1,144	1,644	14	797 A (130)B (41)E 43 I (21)B 55 A (55)B 2 F (2,091)G 2 I	(416)K	3,055
Securities.....	722	21	—		—	722
Cash and cash equivalents.....	770	5,065	384		—	4,132
Non-fixed assets	<u>6,138</u>	<u>8,291</u>	<u>752</u>			<u>13,479</u>
Deferred taxes.....	280	1,060	69	(37)B 108 E 9 A (20)B 2 I	134 K	1,614
Prepaid expenses.....	455	27	1		—	474
Total assets	<u>14,670</u>	<u>10,828</u>	<u>996</u>			<u>33,982</u>
Liabilities and stockholders' equity						
Stockholders' equity.....	2,613	3,203	449	(237)A 1 B 5,867 C 540 D (202)E 22 F (2,371)G 4 H 2 I (2)J	(126)K	9,763
Minority interests	<u>160</u>	<u>119</u>	<u>—</u>	(216)B 47 F (6)H	—	<u>104</u>
Accrued liabilities.....	1,403	4,118	54	505 A (176)B 5 C 6 F 7 I 883 A (155)B (15)C 280 G	41 K	5,963
Financial liabilities.....	3,179	254	114	417 A (135)B 202 I 3 J 985 A (61)B 269 E 182 F 5 I	(29)K	4,511
Trade liabilities.....	2,472	856	336		(255)K	3,896
Other liabilities.....	3,389	1,735	36		(486)K	6,054
Liabilities	<u>9,040</u>	<u>2,845</u>	<u>486</u>			<u>14,461</u>
Deferred taxes.....	12	531	5	990 C 81 D	14 K	1,633
Deferred income.....	1,442	12	2	595 A (3)B 6 I 4 J	—	2,058
Total liabilities	<u>12,057</u>	<u>7,625</u>	<u>547</u>			<u>24,219</u>
Total liabilities and stockholders' equity	<u>14,670</u>	<u>10,828</u>	<u>996</u>			<u>33,982</u>

See accompanying notes to unaudited pro forma combining financial statements.

EUROPEAN AERONAUTIC DEFENCE AND SPACE COMPANY

Unaudited Pro Forma Combining Statement of Income
Year Ended December 31, 1999

	Aerospatiale Matra IAS	Dasa IAS	CASA IAS	Pro Forma Adjustments	Eliminations	Pro Forma EADS
	(in millions of €)					
Revenues.....	12,236	7,455	931	6,353 A (705) B 30 F 80 I 10 J	(3,837) K	22,553
Cost of sales.....	(9,624)	(5,914)	(735)	(6,150) A 550 B (126) C (23) D 41 E (27) F (76) I (9) J	3,815 K	(18,278)
Gross margin	<u>2,612</u>	<u>1,541</u>	<u>196</u>			<u>4,275</u>
Selling, administrative and other expenses.....	(1,358)	(662)	(97)	(200) A 110 B (1) F (14) I (1) J	10 K	(2,213)
Research and development expenses	(689)	(563)	(22)	(34) A 25 B (41) E	—	(1,324)
Other income	312	150	37	(19) A (7) B 12 I	(10) K	475
Goodwill amortization	(127)	(5)	—	(247) C (19) D	—	(398)
Income before financial income and income taxes	<u>750</u>	<u>461</u>	<u>114</u>			<u>815</u>
Financial income (expense), net.....	(1,724)	(89)	(25)	(75) A 5 B (1) F (3) H 1 I 1 J	64 K	(1,846)
Income (loss) before income taxes ...	<u>(974)</u>	<u>372</u>	<u>89</u>			<u>(1,031)</u>
Income taxes.....	352	(405)	(15)	(3) A 10 B 65 C 8 D (1) F	13 K	24
Minority interests.....	(22)	(6)	—	26 B	—	(2)
Net income (loss)	<u>(644)</u>	<u>(39)</u>	<u>74</u>			<u>(1,009)</u>

See accompanying notes to unaudited pro forma combining financial statements.

Reclassifications have been made to harmonize certain income statement accounts of Dasa to the Unaudited Pro Forma Combining Statements of Income of EADS.

EUROPEAN AERONAUTIC DEFENCE AND SPACE COMPANY

**Unaudited Pro Forma Combining Statement of Income
Year Ended December 31, 1998**

	Aerospatiale Matra IAS	Dasa IAS	CASA IAS	Pro Forma Adjustments		Eliminations	Pro Forma EADS
	(in millions of €)						
Revenues.....	11,472	7,115	800	5,038	A	(3,269)	K 20,584
				(680)	B		
				(9)	E		
				33	F		
				82	I		
				2	J		
Cost of sales.....	(8,977)	(5,495)	(626)	(4,964)	A	3,256	K (16,489)
				519	B		
				(126)	C		
				(23)	D		
				49	E		
				(23)	F		
				(77)	I		
				(2)	J		
Gross margin.....	<u>2,495</u>	<u>1,620</u>	<u>174</u>				<u>4,095</u>
Selling, administrative and other expenses.....	(1,351)	(833)	(121)	(180)	A	1	K (2,378)
					B		
				(1)	F		
				(16)	I		
				(1)	J		
Research and development expenses.....	(655)	(507)	(18)	(31)	A	—	(1,232)
				28	B		
				(49)	E		
Other income.....	472	200	32	8	A	(1)	K 710
				(12)	B		
				11	I		
Goodwill amortization.....	(128)	(16)	—	(247)	C	—	(410)
				(19)	D		
Income before financial income and income taxes.....	<u>833</u>	<u>464</u>	<u>67</u>				<u>785</u>
Financial income, net.....	620	223	(6)	66	A	104	K 1,005
				(4)	F		
				2	I		
Income before income taxes.....	<u>1,453</u>	<u>687</u>	<u>61</u>				<u>1,790</u>
Income taxes.....	(427)	(240)	4	(3)	A	8	K (585)
				(2)	B		
				65	C		
				8	D		
				3	E		
				(1)	F		
Minority interests.....	(16)	(23)	—	23	B	—	(16)
Net income.....	<u>1,010</u>	<u>424</u>	<u>65</u>				<u>1,189</u>

See accompanying notes to unaudited pro forma combining financial statements.

EUROPEAN AERONAUTIC DEFENCE AND SPACE COMPANY

**Unaudited Pro Forma Combining Statement of Income
Year Ended December 31, 1997**

	Aerospatiale Matra IAS	Dasa IAS	CASA IAS	Pro Forma Adjustments	Eliminations	Pro Forma EADS
	(in millions of €)					
Revenues.....	11,131	6,303	744	3,967 A (620) B (19) E 28 F 71 I 21 J	(2,761) K	18,865
Cost of sales.....	(8,724)	(5,233)	(556)	(3,800) A 504 B (126) C (23) D 30 E (18) F (70) I (16) J	2,762 K	(15,270)
Gross margin	<u>2,407</u>	<u>1,070</u>	<u>188</u>			<u>3,595</u>
Selling, administrative and other expenses.....	(1,216)	(998)	(112)	(150) A 112 B (18) I (1) J	6 K	(2,377)
Research and development expenses.....	(644)	(409)	(16)	(24) A 33 B (30) E	—	(1,090)
Other income.....	104	355	22	(34) B 17 I	(6) K	458
Goodwill amortization.....	(127)	(10)	—	(247) C (19) D	—	(403)
Income before financial income and income taxes	<u>524</u>	<u>8</u>	<u>82</u>			<u>183</u>
Financial income (expense), net.....	(1,323)	(321)	(16)	(20) A (1) B (6) F 1 I (1) J	(60) K	(1,747)
Income (loss) before income taxes	<u>(799)</u>	<u>(313)</u>	<u>66</u>			<u>(1,564)</u>
Income taxes.....	320	208	(13)	(1) A 3 B 65 C 8 D 7 E (1) F	—	596
Minority interests.....	<u>(10)</u>	<u>(10)</u>	—	5 B	—	<u>(15)</u>
Net income (loss)	<u><u>(489)</u></u>	<u><u>(115)</u></u>	<u><u>53</u></u>			<u><u>(983)</u></u>

See accompanying notes to unaudited pro forma combining financial statements.

EUROPEAN AERONAUTIC DEFENCE AND SPACE COMPANY

**Unaudited Pro Forma Combining Statement of Cash Flows
Year ended December 31, 1999**

	<u>Aerospatiale Matra IAS</u>	<u>Dasa IAS</u>	<u>CASA IAS</u>	<u>Pro Forma Adjustments</u>	<u>Eliminations</u>	<u>Pro Forma EADS</u>
	(in millions of €)					
Net income (loss).....	(644)	(39)	74	(128) A 14 B (308) C (34) D (3) H 3 I 1 J	55 K	(1,009)
Income applicable to minority interests.....	22	6	—	(26) B	—	2
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation and amortization of fixed assets	523	255	33	373 C 42 D	—	1,226
Deferred taxes.....	(423)	489	(13)	(8) B (65) C (8) D	16 K	(12)
Change in financial instruments.....	—	5	24	—	—	29
Net gains on disposals of fixed assets/businesses.....	(267)	(33)	10	—	—	(290)
Change in accrued liabilities.....	316	373	9	118 A (14) B (5) I	12 K	809
Change in other operating assets and liabilities:						
— inventories, net.....	376	(110)	(60)	37 B 18 I (1) J	(56) K	204
— trade receivables.....	(109)	(187)	(95)	47 A (37) B (108) F 5 I 1 J	(3) K	(486)
— trade liabilities.....	229	(15)	262	(89) A 6 B (79) I (2) J	29 K	341
— other assets and liabilities.....	848	(201)	50	(28) A (107) B 105 F 59 I (2) J	— K	724
Cash provided by operating activities.....	<u>871</u>	<u>543</u>	<u>294</u>			<u>1,538</u>

	Aerospatiale Matra IAS	Dasa IAS	CASA IAS	Pro Forma Adjustments	Eliminations	Pro Forma EADS
	(in millions of €)					
Purchase of fixed assets:						
— Purchases of property, plant and equipment.....	(643)	(283)	(66)	(168) A (7) B	21 K	(1,146)
— Purchases of other fixed assets.....	(449)	(72)	(1)	(532) A 5 B 66 F 3 H	—	(980)
Proceeds from disposals of fixed assets.....	651	41	6	1 B	—	699
Payments for acquisitions of businesses.....	—	(71)	(2)	—	—	(73)
Proceeds from disposals of businesses.....	126	19	1	—	—	146
Net disposals of securities and similar financial instruments.....	—	86	—	34 B	—	120
Increase in loans receivable.....	—	(102)	—	—	—	(102)
Change in cash from changes in consolidation	—	(4)	—	—	—	(4)
Cash used for investing activities.....	<u>(315)</u>	<u>(386)</u>	<u>(62)</u>			<u>(1,340)</u>
Change in financial liabilities	329	(37)	(4)	714 A 16 B	(6) K	1,012
Dividends paid (including profit/loss transfer agreement)	—	(1,288)	(17)	70 A	(70) K	(1,305)
Capital increase	—	69	—	—	—	69
Other.....	(17)	(8)	(25)	(4) A (2) B 1 F (1) I 3 J	2 K	(51)
Cash used for financing activities.....	<u>312</u>	<u>(1,264)</u>	<u>(46)</u>			<u>(275)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(27)	—	—	—	—	(27)
Net increase (decrease) in cash and cash equivalents.....	841	(1,107)	186			(104)
Cash and cash equivalents						
At beginning of period	1,492	5,065	384	55 A (55) B 2 F (2,091) G 2 I	—	4,854
	—	—	—	55 A (144) B 66 F (2,091) G		—
At end of period.....	<u>2,333</u>	<u>3,958</u>	<u>570</u>	2 I	—	<u>4,750</u>

See accompanying notes to unaudited pro forma combining financial statements.

EUROPEAN AERONAUTIC DEFENCE AND SPACE COMPANY EADS N.V.

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

(amounts in millions of €)

- A** Adjustments have been made to record an additional 42.1% of the assets and liabilities of Airbus Industrie, representing the percentage interests in the assets and liabilities owned by Dasa (37.9%) and CASA (4.2%) prior to the transactions. ASM accounted for its 37.9% ownership interest in Airbus Industrie prior to the transactions using the proportionate method of consolidation; Dasa and CASA accounted for their ownership interests in Airbus Industrie using the equity method of accounting. As such, 37.9% of the assets and liabilities of Airbus Industrie are included in the financial statements of ASM. After the transactions, EADS will account for its 80% ownership of Airbus Industrie using the proportionate method of consolidation.
- B** Adjustments have been made to eliminate 40% of the assets and liabilities of the Eurocopter Group which were accounted for, prior to the transactions, using the proportionate method of consolidation by Dasa. ASM's ownership interest in the Eurocopter Group, prior to the transactions, was 60% and therefore the assets and liabilities of the Eurocopter Group were consolidated by ASM. After the transactions, EADS will own 100% of the Eurocopter Group.
- C** Adjustments have been made to allocate the excess of the fair value of Dasa over its historical cost amounting to €5,867 to specifically identifiable assets acquired and liabilities assumed based upon a preliminary determination of fair values. The excess of the fair value over the historical cost has been allocated to specifically identified assets and liabilities as follows:

Property, plant and equipment	€1,566
Inventories	310
Long-term financial assets.....	37
Accrued liabilities.....	(5)
Financial liabilities.....	15
Deferred tax liability.....	(990)
Excess purchase price.....	<u>4,934</u>
	<u>€5,867</u>

A deferred tax liability has been established representing the estimated tax effect of specifically identified assets and liabilities to be increased to fair value.

An adjustment of €4,934 has been made to record the remaining excess purchase price over the preliminary estimate of the fair values of the respective assets acquired and liabilities assumed related to Dasa. After the transactions, EADS management intends to undertake a comprehensive valuation study to record the assets acquired and liabilities assumed at their fair market values.

Amortization of the fair value adjustments to property, plant and equipment in the amount of €126 for each of the years ended December 31, 1997, 1998 and 1999, respectively, approximating a composite life of 12.4 years, 11.4 years and 10.4 years for the years ended December 31, 1997, 1998 and 1999, respectively, has been recorded in the unaudited pro forma combining statements of income. These amounts were determined based on the preliminary purchase price allocation. EADS management believes that the amortization recorded in the pro forma financial statements will not vary materially from the amounts that will be recorded once a comprehensive valuation study is completed. Adjustments were made in the amount of €65 for each of the years ended December 31, 1997, 1998 and 1999, respectively, to reduce income tax expense for the estimated tax effect for amortization of the estimated fair value adjustments to property, plant and equipment.

Amortization of the excess purchase price in the amount of €247 for each of the years ended December 31, 1997, 1998 and 1999, respectively, approximating a composite life of 20 years, 19 years and 18 years for the years ended December 31, 1997, 1998 and 1999, respectively, has been recorded in the unaudited pro forma combining statements of income. EADS management believes that the amortization recorded in the pro forma financial statements will not vary materially from the amounts that will be recorded once a comprehensive valuation study is completed.

- D** Adjustments have been made to allocate the excess of the fair value of CASA over its historical cost amounting to €540 to specifically identifiable assets acquired and liabilities assumed based upon a preliminary determination of fair values. The excess of the fair value over the historical cost has been allocated to specifically identified assets and liabilities as follows.

Property, plant and equipment	€179
Inventories.....	53
Deferred tax liability.....	(81)
Excess purchase price.....	<u>389</u>
	<u>€540</u>

A deferred tax liability has been established representing the estimated tax effect of specifically identified assets and liabilities to be increased to fair value.

An adjustment of €389 has been made to record the remaining excess purchase price over the preliminary estimate of the fair values of the respective assets acquired and liabilities assumed related to CASA. After the transactions, EADS management intends to undertake a comprehensive valuation study to record the assets acquired and liabilities assumed at their fair values.

Amortization of the fair value adjustments to property, plant and equipment in the amount of €23 for each of the years ended December 31, 1997, 1998 and 1999, respectively, approximating a composite life of 7.8 years, 6.8 years and 5.8 years for the years ended December 31, 1997, 1998 and 1999, respectively, has been recorded in the unaudited pro forma combining statements of income. These amounts were determined based on the preliminary purchase price allocation. EADS management believes that the amortization recorded in the pro forma financial statements will not vary materially from the amounts that will be recorded once a comprehensive valuation study is completed. Adjustments were made in the amount of €8 for each of the years ended December 31, 1997, 1998 and 1999, respectively, to reduce income tax expense for the estimated tax effect for amortization of the estimated fair value adjustments to property, plant and equipment.

Amortization of the excess purchase price in the amount of €19 for each of the years ended December 31, 1997, 1998 and 1999, respectively, approximating a composite life of 20 years, 19 years and 18 years for the years ended December 31, 1997, 1998 and 1999, respectively, has been recorded in the unaudited pro forma combining statements of income. EADS management believes that the amortization recorded in the pro forma financial statements will not vary materially from the amounts that will be recorded once a comprehensive valuation study is completed.

- E** Adjustments have been made to recognize certain assets and liabilities and reclassify certain expenses related to development grants received by CASA to conform with the accounting practices of EADS.
- F** Adjustments have been made to consolidate the assets and liabilities of Airbus Financing Company. Prior to the transactions, ASM and Dasa accounted for their 37.9% ownership interests in Airbus Financing Company using the equity method of accounting; CASA accounted for its 4.2% ownership interest in Airbus Financing Company using the cost method of accounting. After the transactions, EADS will own 80% of Airbus Financing Company and consolidate its financial position and results of operations.
- G** Pursuant to the business combination agreement, cash and cash equivalents of Dasa and CASA amounting to €1,749 and €342, respectively, shall be retained mainly by DaimlerChrysler and Sociedad Estatal de Participaciones Industriales, respectively, the parent companies of the combining entities. Additionally, financial liabilities of DaimlerChrysler amounting to €280 will be assumed by EADS. Accordingly, adjustments have been recorded to return the cash and cash equivalents mainly to DaimlerChrysler and Sociedad Estatal de Participaciones Industriales and to establish the financial liabilities with an offsetting decrease in stockholders' equity of EADS.
- H** Adjustments have been made to eliminate the 15% minority interests of LFK-Lenkflugkörpersysteme GmbH held indirectly by Aerospatale Matra. Prior to the transactions, Dasa consolidated its 51% direct and 8% indirect ownership in LFK- Lenkflugkörpersysteme GmbH. After the transactions, EADS will own, directly and indirectly, 74% of LFK-Lenkflugkörpersysteme GmbH.
- I** Adjustments have been made to record an additional 50% of the assets and liabilities of Euromissile GIE, representing the percentage interests in the assets and liabilities owned by Dasa (50%) prior to the transactions. ASM accounted for its 50% ownership interest in Euromissile GIE prior to the transactions using the proportionate method of consolidation; Dasa accounted for its 50% ownership interest in Euromissile GIE

using the cost method of accounting. As such, 50% of the assets and liabilities of Euromissile GIE are included in the financial statements of ASM. After the transactions, EADS will own 100% of Euromissile GIE.

- J** Adjustments have been made to record an additional 50% of the assets and liabilities of Satic GIE, representing the percentage interests in the assets and liabilities owned by Dasa (50%) prior to the transactions. ASM accounted for its 50% ownership interest in Satic GIE prior to the transactions using the proportionate method of consolidation; Dasa accounted for its 50% ownership interest in Satic GIE using the cost method of accounting. As such, 50% of the assets and liabilities of Satic GIE are included in the financial statements of ASM. After the transactions, EADS will own 100% of Satic GIE.
- K** Adjustments have been made to eliminate the intercompany balances and activity between ASM, Dasa, CASA and their consolidated subsidiaries in the pro forma combining financial statements.

AEROSPATIALE MATRA

Financial highlights (millions of €)

RESULTS

	<u>1999</u>	<u>1998</u>	<u>1998</u>	<u>1997</u>
		pro forma	published	
Sales.....	12,898	12,293	8,365	8,582
Added value.....	4,199	4,296	2,693	2,704
Gross operating margin	919	1,083	542	473
Operating income.....	480	494	62	164
Pretax income before exceptional items.....	389	485	53	178
Net income of consolidated companies.....	71	452	163	192
Total net income	54	453	175	217
Group share	30	436	158	216

BALANCE SHEET

	<u>1999</u>	<u>1998</u>	<u>1998</u>	<u>1997</u>
	Net	(pro forma) Aerospatiale Matra after distribution	Net	Net
Fixed assets.....	2,735	2,667	2,187	1,856
Current assets				
Inventories and work-in-process.....	5,704	5,151	4,518	3,362
Receivables.....	6,300	5,652	4,743	4,156
Marketable securities; cash and equivalents.....	2,846	1,989	1,655	1,649
	<u>14,850</u>	<u>12,792</u>	<u>10,916</u>	<u>9,167</u>
Total assets	<u>17,585</u>	<u>15,459</u>	<u>13,103</u>	<u>11,023</u>
Shareholders' equity: Group share.....	1,613	1,552	956	804
Deferred share consideration			406	
Total	<u>1,613</u>	<u>1,552</u>	<u>1,362</u>	<u>804</u>
Minority interests	200	174	174	170
Total	<u>1,813</u>	<u>1,726</u>	<u>1,536</u>	<u>974</u>
Provisions for contingencies.....	1,889	1,619	1,383	1,163
Liabilities				
Borrowings.....	2,173	2,000	1,648	1,792
Sundry payables	11,710	10,114	8,536	7,094
	<u>13,883</u>	<u>12,114</u>	<u>10,184</u>	<u>8,886</u>
Total liabilities and shareholders' equity	<u>17,585</u>	<u>15,459</u>	<u>13,103</u>	<u>11,023</u>

AEROSPATIALE MATRA

Consolidated balance sheet (FF millions)

	Notes	December 31, 1999 Net	(pro forma) Aerospatiale Matra after distribution*	December 31, 1998 Net	December 31, 1997 Net
ASSETS					
Fixed assets					
Intangible assets.....	1	2,852	2,988	587	539
Tangible assets	2	11,588	10,753	9,080	8,362
Companies accounted for by the equity method.....	3	831	1,966	1,706	1,275
Loans and investments.....	4	<u>2,667</u>	<u>1,788</u>	<u>2,972</u>	<u>1,997</u>
		<u>17,938</u>	<u>17,495</u>	<u>14,345</u>	<u>12,173</u>
Current assets					
Inventories and work-in-process	5	37,416	33,786	29,639	22,053
Advances and payments on account.....		4,875	4,110	3,513	3,459
Accounts receivable.....	6	22,261	21,400	17,230	14,743
Sundry receivables.....	6	11,515	8,609	7,523	7,124
Prepaid expenses.....	7	2,675	2,957	2,841	1,935
Marketable securities.....	10	13,547	7,918	7,918	8,073
Cash and equivalents.....	10	<u>5,120</u>	<u>5,130</u>	<u>2,939</u>	<u>2,742</u>
		97,409	83,910	71,603	60,129
Total assets.....		<u><u>115,347</u></u>	<u><u>101,405</u></u>	<u><u>85,948</u></u>	<u><u>72,302</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity.....					
Capital stock.....	8	8,074	8,074	4,608	4,608
Reserves		1,986	2,028	551	(867)
Currency translation adjustment.....		319	78	78	112
Income for the year.....		<u>200</u>		<u>1,037</u>	<u>1,418</u>
Shareholders' equity: Group share.....		<u>10,579</u>	<u>10,180</u>	<u>6,274</u>	<u>5,271</u>
Other shareholders' equity					
Deferred share consideration.....			<u>2,658</u>		
		<u>10,579</u>	<u>10,180</u>	<u>8,932</u>	<u>5,271</u>
Minority interests.....		1,310	1,143	1,144	1,116
Total shareholders' equity.....		<u>11,889</u>	<u>11,323</u>	<u>10,076</u>	<u>6,387</u>
Provisions for contingencies	9	12,392	10,620	9,069	7,626
Liabilities					
Borrowings	10	14,255	13,119	10,813	11,754
Advances and payments on account.....		40,750	33,731	29,585	23,351
Operating payables		27,622	25,419	20,191	18,306
Sundry payables.....		5,752	5,374	4,493	2,968
Deferred income	11	<u>2,687</u>	<u>1,819</u>	<u>1,721</u>	<u>1,910</u>
		91,066	79,462	66,803	58,289
Total liabilities and shareholders' equity		<u><u>115,347</u></u>	<u><u>101,405</u></u>	<u><u>85,948</u></u>	<u><u>72,302</u></u>

(*) see Note I.1

Off-balance sheet commitments are shown in Notes 12 and 13.

AEROSPATIALE MATRA

Consolidated statement of income (FF millions)

	Notes	1999	1998 pro forma	1998 published	1997
Sales.....	14	84,608	80,634	54,869	56,293
Other operating revenues.....		1,555	2,337	1,226	713
Consumption of supplies and services and changes in inventories		<u>(58,618)</u>	<u>(54,793)</u>	<u>(38,432)</u>	<u>(39,272)</u>
Value added		27,545	28,178	17,663	17,734
Sundry taxes and related charges		(1,166)	(1,629)	(1,217)	(1,162)
Payroll costs.....		<u>(20,354)</u>	<u>(19,443)</u>	<u>(12,892)</u>	<u>(13,469)</u>
Gross operating margin		6,025	7,106	3,554	3,103
Depreciation of fixed assets		(2,362)	(2,247)	(1,603)	(1,777)
Increases to and reversals of provisions.....		(729)	(1,521)	(1,417)	(28)
Other income and expenses		<u>213</u>	<u>(97)</u>	<u>(125)</u>	<u>(220)</u>
Operating income	15	3,147	3,241	409	1,078
Dividends and share of income from joint ventures		66	29	29	63
Net financial expenses		(31)	(75)	(94)	(52)
Exchange differences.....		(408)	1	7	85
Increases to and reversals of financial provisions, expense transfers		<u>(223)</u>	<u>(12)</u>	<u>(6)</u>	<u>(4)</u>
Financial income (loss)	16	<u>(596)</u>	<u>(57)</u>	<u>(64)</u>	<u>92</u>
Pretax income before exceptional items		2,551	3,184	345	1,170
Exceptional items	17	(1,680)	932	572	71
Pretax net income		871	4,116	917	1,241
Income tax.....	18	<u>(408)</u>	<u>(1,150)</u>	<u>152</u>	<u>18</u>
Net income of consolidated companies		463	2,966	1,069	1,259
Results of companies accounted for by the equity method	19	33	149	100	178
Depreciation and amortization of goodwill		<u>(139)</u>	<u>(142)</u>	<u>(19)</u>	<u>(14)</u>
Total net income		<u>357</u>	<u>2,973</u>	<u>1,150</u>	<u>1,423</u>
Group share		200	2,860	1,037	1,418
Minority interests		157	113	113	5
Net earnings per share (French francs)		0.50	7.08		
Weighted average number of shares at par value of FF 20		403,687,775	403,687,775		

AEROSPATIALE MATRA

Statement of cash flows (FF millions)

	1999	1998(*)	1997(*)
Net cash flows from operations			
Net income	357	1,150	1,423
Less income from companies accounted for by the equity method, net of dividends received	(10)	(89)	(165)
Less proceeds from the sale of fixed assets	(1,859)	(1,115)	(231)
Net of depreciation and provisions written back	3,772	2,621	1,441
Cash flow	2,260	2,567	2,468
Changes in inventories and work-in-process	(2,533)	(1,483)	374
Changes in advances and payments on account to suppliers	(585)	(326)	216
Changes in operating receivables	(419)	(1,849)	1,759
Changes in sundry receivables	(961)	(2,099)	(2,448)
Changes in advances and payments on account from customers	4,766	(822)	3,032
Changes in operating payables	1,559	1,486	403
Changes in sundry payables	1,453	1,690	(1,434)
Changes in provisions for depreciation of assets	26	190	(336)
Expenses to be amortized over several years	6	6	5
(Increase)/decrease (+) in working capital requirements	3,306	(3,207)	1,571
	5,566	(640)	4,039
Net cash flows from investing activities			
Acquisitions of tangible and intangible assets	(3,411)	(2,479)	(2,414)
Equity investments	(979)	(2,172)	(970)
Disposals of or reductions in fixed assets Note 23	3,529	2,983	1,310
Impact of changes in cash position	3	75	116
	(858)	(1,593)	(1,958)
Net cash flows from financing operations			
Funds from long-term loans	2,298	86	993
Repayments of long-term loans	(1,311)	(820)	(1,423)
Distribution of dividends for the year	987	(734)	(430)
Net change in cash position	5,695	(2,967)	1,651
Cash position at December 31, 1998	9,343	8,864	7,118
Impact of transfer of Matra Hautes Technologies shares at January 1, 1999	1,000		
Net change in cash position	5,695	(2,967)	1,651
Impact of changes in the scope of consolidation (Dassault Aviation at December 31, 1998) and non-monetary movements	41	3,446	95
Cash position at Dec. 31, 1999	16,079	9,343	8,864

(*) Cash flows for 1998 and 1997 are given for the former scope of consolidation, excluding Matra Hautes Technologies and Dassault Aviation.

Definition of Cash Position

	December 31,		
	1999	1998	1997
Marketable securities	13,547	7,918	8,073
Cash and cash equivalents (including loans to non-consolidated subsidiaries covered by liquidity agreements: FF 100 million at Dec. 31, 1998 and FF 101 million at Dec. 31, 1997)	5,120	3,039	2,843
less:			
current borrowings	(2,319)	(1,404)	(1,858)
advances to non-consolidated entities covered by the treasury agreement	(269)	(210)	(194)
Net cash position	16,079	9,343	8,864

AEROSPATIALE MATRA

Statement of changes in consolidated equity (Group share) (FF millions)

	<u>Capital</u>	<u>Statutory reserve</u>	<u>Premiums</u>	<u>Consolidated reserves</u>	<u>Income for the year</u>	<u>Exchange differences</u>	<u>Total shareholders' equity</u>	<u>Number of shares</u>
Shareholders' equity at December 31,								
1997 before distribution.....	4,608	375	0	(1,242)	1,418	112	5,271	46,078,500
Distribution of income for 1997.....		86		1,332	(1,418)		0	
Changes in exchange differences.....						(34)	(34)	
Income for 1998.....					1,037		1,037	
Shareholders' equity at December 31,								
1998 before distribution.....	4,608	461	0	90	1,037	78	6,274	46,078,500
Distribution of income for 1998.....				1,037	(1,037)		0	
Redistribution to shareholders of Thomson CSF shares received in 1998 for transfer of satellite business.....				(1,333)			(1,333)	
Capital increase in payment for the state's contribution of its Dassault Aviation shares.....	927		1,731				2,658	9,267,094
5 for 1 share split.....								221,382,376
Number of shares at a par value of 20 francs.....								276,727,970
Transfer by Lagardère SCA of Matra Hautes Technologies shares.....	2,539		1,515				4,054	126,959,805
Withdrawal from paid-in surplus to bring statutory reserves to maximum.....		347	(347)				0	
Allocation of Matra Hautes Technologies transfer goodwill.....			(1,515)				(1,515)	
Changes in exchange differences.....						241	241	
Income for 1999.....					200		200	
Shareholders' equity at December 31, 1999 before distribution.....	<u>8,074</u>	<u>808</u>	<u>1,384</u>	<u>(206)</u>	<u>200</u>	<u>319</u>	<u>10,579</u>	<u>403,687,775</u>

AEROSPATIALE MATRA

Notes to the consolidated financial statements

Aerospatiale Matra's consolidated financial statements are drawn up according to the law of January 3, 1985, enacted by decree dated February 17, 1986.

I — HIGHLIGHTS

1) On April 1, 1999, Aerospatiale Matra spun off as subsidiaries its Airbus, ATR, Missiles, and Launch Vehicles and Strategic Missiles businesses, with retroactive effect to January 1. It retained its Systems Integration and Services business (ISTI), as well as the Suresnes R&D center, whose business is now subcontracted to the CCR consortium, formed in April 1999.

2) The capital increase reserved for the French state, in payment for the transfer of its 45.76 percent interest in Dassault Aviation on December 30, 1998, was carried out on May 6, 1999. The transfer amount, of 2,658 million francs, which had been recorded under "deferred share consideration" in the balance sheet at December 31, 1998, was paid back by a capital increase of FF 927 million, and a paid-in surplus of FF 1,731 million.

3) On May 18, 1999, Aerospatiale Matra redistributed to its shareholders the Thomson-CSF shares it had received on June 22, 1998 in payment for the transfer of its previously spun-off satellite business.

Worth FF 1,333 million, this distribution was allocated to retained earnings, which then equaled FF 22 million. With the agreement of the French Direction Générale des Impôts, this distribution fell under the provisions of article 115-2 of the general tax code (CGI), and could be carried out tax-free.

4) Lagardère SCA contributed 100 percent of the shares in Matra Hautes Technologies, for a book value of FF 4,054 million, effective January 1, 1999. This transfer was finalized on June 11, 1999, the day the private sector took over more than 50 percent of the capital and voting rights; it was paid through a capital increase of FF 2,539 million and a paid-in surplus of FF 1,515 million.

5) In February 1999, Aerospatiale Matra transferred to Thomson-CSF its 50 percent stake in ATEV (which owns 99.71 percent of Avionique Sextant) for FF 2,227 million, recording a pre-tax capital gain of FF 1,196 million.

2 — CONSOLIDATION PRINCIPLES

The financial statements of consolidated subsidiaries, prepared according to the generally-accepted accounting principles of their respective countries, have been restated according to the principles used by Aerospatiale Matra.

2-1 Consolidation: Scope and Procedures

a) Consolidation criteria

Companies over which Aerospatiale Matra exercises either legal or de facto long-term control and for which the sales and balance sheet totals represent at least 0.5% of the corresponding consolidated Aerospatiale Matra figures, are fully consolidated.

The companies and consortiums over which Aerospatiale Matra exercises joint control with other groups are consolidated by the proportionate method.

Companies over which Aerospatiale Matra does not exercise total control but rather substantial influence, and whose net assets represent over 2% of Aerospatiale Matra's consolidated net assets, are consolidated using the equity method, as are financing companies, after consideration of their share ownership structure, the rules of control and majority voting requirements.

b) Changes in the scope of consolidation

All Matra Hautes Technologies group companies transferred by Lagardère SCA were consolidated effective January 1, 1999 to ensure comparability with the pro forma financial statements in the Reference Document and in the coming financial years. These companies are shown in the following list.

Dassault Aviation, for which only the balance sheet had been consolidated as of December 31, 1998, is now consolidated by the proportionate method.

The company's equity interest in ATEV, the parent company of Sextant Avionique, previously consolidated using the equity method, was divested in February 1999 and is no longer consolidated.

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

Consolidated companies, at December 31, 1999

<u>Business sector</u>	<u>Consolidation method</u>	<u>% interest</u>	<u>Company</u>	<u>Head office</u>	
Aircraft					
Airbus	F	100	Aerospatiale Matra Airbus	Paris	
	P	37.9	GIE Airbus Industrie	Blagnac	
	P	37.9	AVSA SARL	Blagnac	
	P	37.9	Société Commerciale A-300-SOCA	Blagnac	
	P	37.9	Airbus Simulators Services	Blagnac	
	P	37.9	AINA Holdings Inc	Herndon, Virginia (USA)	
	P	37.9	Airbus Transport International	Blagnac	
	P	50	GIE SATIC	Colomiers	
	E	37.9	Airbus Finance Company	Dublin	
	E	37.9	Airbus Ind. Financial Services	Dublin	
	Helicopters	F	60	Eurocopter Holding	Paris
		F	70	Eurocopter	Marignane
		F	70	Eurocopter Deutschland	Munich
		F	70	American Eurocopter Corp	Dallas, Texas (USA)
F		70	Eurocopter Canada Ltd	Ontario (Canada)	
F		49.08	Samaero	Singapore	
F		53.57	Helibras	Brazil	
Dassault Aviation Group	P	45.76	Dassault Aviation	Paris	
	P	45.76	Dassault International France	Vaucresson	
	P	45.76	Dassault Falcon Jet and subsidiaries	Teterboro NJ (USA)	
	P	45.76	Sogitec Industries	Suresnes	
	P	45.76	Dassault Falcon Service		
	P	45.76	IPS		
	E	45.76	Dassault Aero Service		
	E	45.76	Dassault Assurances Courtage		
	E	45.76	Dassault International Inc	Paramus NJ (USA)	
	E	45.76	Société Toulouse Colomiers		
Other Aircraft Operations					
ATR	F	100	Aerospatiale Matra ATR	Paris	
	P	50	GIE ATR	Toulouse	
Maintenance	F	98.31	Sogerma	Mérignac	
	F	98.31	Seca	Le Bourget	
	F	98.31	Barfield	Miami, Florida (USA)	
	F	68.81	Revima	Roissy — Charles-de-Gaulle	
	F	49.32	Composites Aquitaine	St-Médard-en-Jalles	
	F	98.31	Maroc Aviation	Casablanca	
	F	98.31	Noise Reduction Engineering	Washington DC (USA)	
General Aviation	F	100	Socata	Le Bourget	
Space					
	F	100	Aerospatiale Matra Lanceurs Stratégiques et Spatiaux	Paris	
	F	90	Sodern	Limeil-Brévannes	
	F	99.89	S.C.I. Matra Toulouse	Paris	
	P	50	Matra Marconi Space NV	The Hague (Netherlands)	
	P	50	Matra Marconi Space France	Paris	
	P	50	Matra Espace Holding BV	The Hague (Netherlands)	
	P	50	Matra Espace Participation	Paris	
	P	50	Matra Marconi Space UK (Holdings) Ltd	Stanmore (UK)	
	P	50	Matra Marconi Space UK Ltd	Stanmore (UK)	
	P	50	Matra Space Systems Participations BV	The Hague (Netherlands)	
	E	16.7	Spot Image	Toulouse	
Missile Systems					
	F	100	Aerospatiale Matra Missiles	Paris	
	P	50	GIE Euromissile	Fontenay-aux-Roses	
	P	50	Celerg	Le Plessis-Robinson	
	F	100	Matra Holding GmbH	Frankfurt am main (Germany)	
	F	100	Matra Défense	Paris	
	F	100	Matra Hautes Technologies	Paris	
	F	51	APIC	France	
			MAI Group		
	F	100	M.A.I	Frederick (USA)	
	F	100	Fairchild Controls	Frederick (USA)	

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

<u>Business sector</u>	<u>Consolidation method</u>	<u>% interest</u>	<u>Company</u>	<u>Head office</u>
	F	100	Germantown	Frederick (USA)
	F	100	Manhattan Beach	Frederick (USA)
	P	50	Matra BAe Dynamics Group	Paris
	P	50	Matra BAe Dynamics SAS	Paris
	P	75	Matra BAe Dynamics Management	Valenton
	P	50	ALKAN	Paris
	P	50	Matra BAe Dynamics France	Paris
	P	50	Matra BAe Dynamics UK	Stevenage, Herts (UK)
	P	50	Matra Electronique	Paris
	E	20	B.B.V	Uberlingen (Germany)
	E	20	B.G.T	Uberlingen (Germany)
	E	15	LFK	Munich (Germany)
Systems, Services and Telecommunications				
Systems and Services	F	100	Matra Systèmes & Information	Val-de-Rueil
	F	99.95	G 2 I	Velizy-Villacoublay
Telecommunications	F	100	Intecom Inc	Allen, Texas (USA)
	F	100	Matra Communication USA Inc	Burligame California (USA)
	F	100	M N H	Paris
			Matra Nortel Communications Group	
	P	50	Matra Nortel Communications	Quimper
	P	50	AEG Mobile Communication GmbH	Ulm (Germany)
	P	50	Matra Communication EGT N.V	Bruxelles (Belgique)
	P	50	Matra Nortel Communications Paris Ile-de-France	Malakoff
	P	50	Matra Nortel Communications Distribution Europe	Quimper
	P	50	Matra Communication Cellular Terminals	Ulm (Germany)
	P	50	Matra Nortel Communications Nord-Ouest	La Madeleine
	P	50	Matra Nortel Communications Centre-Est	Bron
	P	50	Matra Nortel Communications Sud	Toulouse
	P	50	Matra Radio Systems	Madrid (Spain)
	P	50	Matra Communication SPA	Milan (Italy)
	P	50	Matra de Comunicaciones España	Madrid (Spain)
	P	50	Matra Communication Business Systems GmbH	Francfort (Germany)
	P	50	Matra Communication Danemark	Denmark
Advanced Information Technologies	E	2.67	CMC	Montigny
			Matra Datavision Group	
	F	100	M.P. 13	Paris
	F	100	Datavision International	Les Ulis
	F	100	Matra Datavision	Paris
	F	100	Matra Datavision Ltd	Coventry (UK)
	F	100	Matra Datavision AG	Danges (Suisse)
	F	100	Matra Datavision Asia Pacific	Wanchai (Hong Kong)
	F	100	Matra Datavision BEN	Brussels (Belgium)
	F	100	Matra Datavision BV	Leiden (Netherlands)
	F	100	Matra Datavision GmbH	Munich (Germany)
	F	100	Matra Datavision Iberia	Madrid (Spain)
	F	100	Matra Datavision Inc	Andover, Massachussets (USA)
	F	100	Matra Datavision Kk	Tokyo (Japan)
	F	100	Matra Datavision SPA	Turin (Italy)
	F	100	Sofrimat 5	Les Ulis
	F	100	M.C.N. SAT HOLDING	Paris
	F	100	M.C.N. SAT SERVICE	Paris
	F	100	Matranet	Paris
	F	100	Matra Grolier Network	Asnières
Other	E	34.73	Office Général de l'Air (OGA)	Paris
	E	25.42	Sofema	Paris

F ● Fully-consolidated

P ● Proportionate

E ● Equity method

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

2.2. Translation of financial statements of international subsidiaries

Subsidiaries' accounts denominated in foreign currencies were translated into French francs at year-end exchange rates for balance sheet headings, and at the annual average rate for income items. The difference due to using the average exchange rate is recorded in consolidated shareholders' equity.

Income and expenses recorded by GIE Airbus Industrie in U.S. dollars are recorded at the average rate of related firm and optional foreign currency hedges previously set up.

2.3. Goodwill

Goodwill represents the difference between the purchase price of shares in consolidated companies and the Group's share of their net assets at the date of purchase.

The goodwill generated by the transfer of Matra Hautes Technologies shares, including the goodwill and badwill figuring in the consolidated balance sheet of Matra Hautes Technologies, were allocated to the paid-in surplus for Matra Hautes Technologies shares, equaling FF 1,514 million. The balance of FF 2,295 million was recorded under goodwill, and amortized over 20 years.

Other goodwill is amortized over a period of 5 to 20 years, depending on the entities concerned.

2.4. Leasehold fixed assets

Leasehold fixed assets of significant value are recorded as assets at cost and depreciated according to type. The corresponding debt is recorded as a liability.

2.5. Deferred taxes

Deferred taxes are determined for each tax entity on the basis of temporary differences between the book value of assets or liabilities and their tax value.

These temporary differences (assets and liabilities) are analyzed over time by date of their reversal or use. Offsetting assets and liabilities by reversal date, they give rise to a net deferred tax position, determined by applying the liability method.

The assets from net deferred taxes are recognized to the extent of the amounts deemed recoverable within a reasonable period, and are depreciated when it is not virtually certain that they can be recovered.

2.6. Intra-group operations

Capital gains on the sale or transfer of fixed assets within the group are eliminated from income, with the corresponding assets being held at their previous book value. This value will continue, as applicable, to be used as a basis for calculating depreciation and capital gains for later sales.

Sales and purchases between the consolidated entities are wholly eliminated, as are the resulting receivables and payables.

Margins on internal sales to proportionally-consolidated companies included within inventories and work-in-process are eliminated to the extent of the percentage ownership in the joint venture.

The impact of the spinoffs was neutralized: the difference between the rents billed to subsidiaries for land and buildings kept by the parent company, and the corresponding amortization was cancelled; and the work-in-process in which part of these rents were incorporated, as well as any provisions for losses on completion of contracts, were restated.

3 — ACCOUNTING PRINCIPLES AND PRACTICES

3.1. Intangible assets

Intangible assets (excluding goodwill) consist principally of software, which is depreciated over its useful life, generally three years.

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

3.2. Tangible assets

Tangible assets are recorded at their acquisition cost, except those within the scope of a legal revaluation.

Depreciation methods are those determined by the “Guide Comptable des Industries Aéronautiques et Spatiales,” using the straight-line method.

Equipment and tooling, which was previously depreciated on an accelerated basis, are now depreciated on a straight-line basis, using book values as at January 1, 1998.

Depreciation periods are as follows:

- Buildings: 6²/₃ to 20 years.
- Support equipment and general plant: 10 years.
- Specialized complex facilities: 6²/₃ to 20 years.
- Industrial plant and equipment: 3 to 10 years.
- Capitalized aviation equipment: 6²/₃ years.
- Other: 3 to 10 years.

3.3. Investments in non-consolidated companies

Investments are recorded at historical cost, or, where relevant, at a revalued amount.

Any provisions for write-downs of investments are determined by comparison between the book value of the investment and the underlying value of the company's share of net assets. The profitability, future prospects and, where relevant, the market price, are also taken into account.

3.4. Inventories and work-in-process

Raw material inventories and other supplies are valued at weighted average cost.

Work-in-process, semi-finished and finished inventories are valued at production cost and exclude interest charges, research and development costs, administrative costs, distribution costs and the cost of any under-capacity.

Provisions for depreciation are recorded when cost exceeds probable realizable value.

3.5. Loans and receivables

Loans and receivables are recorded at cost. Provisions for depreciation are recorded for loans and receivables where there is a risk of non-recovery.

Loans and receivables denominated in foreign currencies that are not hedged are translated at the year-end exchange rate. Resulting unrealized losses and gains are recorded in the statement of income.

Loans and receivables denominated in foreign currencies that are hedged (see Note V-12) are translated at the hedged rate and the resulting exchange differences are recorded in the statement of income.

3.6. Marketable securities

Marketable securities are valued at historical cost using the FIFO method (first in, first out).

Provisions for depreciation are recorded, if needed, when market value falls below cost, based on:

- for quoted securities, closing market price at year end;
- for unquoted securities, the estimated realizable value.

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

3.7. Provisions for contingencies

a) Provisions for losses on completion of contracts

Orders for which a loss provision may be required are those recorded in the order book as of December 31st, i.e., for which a contract has been signed, a substantial payment on account received and finance guaranteed.

Probable losses are provided for as soon as they can be identified. Such provisions are recorded as write-downs of work-in-process for that part of the work which has already been carried out, and as provisions for risks for the remainder.

Losses are determined on the basis of estimated results on completion of contracts, regularly updated, and take into account Aerospatiale Matra's share of expected margins for the Airbus Industrie and ATR consortiums. These margins are calculated for each contract having an open order at year-end, and take into account the difference between the sale price to the final customers and the consortiums' own cost of goods sold.

Translation procedures for foreign currency contracts are outlined in Note 3.11.

b) Provisions for financial guarantees corresponding to aircraft sales

Sales contracts for Airbus and ATR aircraft may stipulate financial guarantees on behalf of the consortiums. Guarantees may be sole, joint (with engine manufacturers, for example) or restricted to a ceiling defined in the contract. There are three main categories of financial guarantees:

- guarantees for lease payments;
- guarantees corresponding to the residual value of aircraft or the repayment of the balance of outstanding borrowings;
- guarantees to contribute to financing the sale of certain aircraft.

Provisions for risks are recorded to cover any future expenses considered probable within the scope of commitments corresponding to aircraft delivered. These guarantees may be provided by the consortiums or their subsidiaries in cases where the subsidiaries are counter-guaranteed by the consortiums.

Guarantees for Lease Payments

These guarantees are principally granted to investors who have acquired aircraft and rent such aircraft directly or indirectly to airlines. If airlines are unable to meet lease payments, the consortiums, and not the airlines, pay the investors. Future expenses are calculated based on costs to resell the aircraft, lease payments during the period aircraft are grounded, maintenance and storage costs and, if applicable, the difference between lease payments to investors and the projected lease payments from new airlines that will use the aircraft.

Residual Value Guarantees

Within the scope of certain contracts, the consortium undertakes to either repurchase the aircraft during a specific period or on certain dates at an agreed price, or bear any losses if the aircraft is resold on the second-hand market. The risk for the consortium corresponds to the difference between the estimated market value of the aircraft at the date when the option can be exercised by the customers and the guaranteed value.

GUARANTEES TO TAKE PART IN AIRCRAFT FINANCING

Provisions are recorded against loans granted to airlines in the event that these guarantees are exercised. Risks are assessed in light of the customer's financial situation, the type of receivable, the estimated value of counter-guarantees in favor of the consortium and the estimated market value of the aircraft concerned.

3.8. Retirement indemnities

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.

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

In Germany, retirement indemnities are paid on the basis of salaries and seniority.

Actuarial assessments are regularly made to determine the amount of the Group's commitments 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 bear to meet these commitments.

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

The Group has no pension or supplementary retirement benefit commitments.

3.9. Sales and revenue recognition

a) Series production (airplanes and helicopters)

Sales and earnings are generated when aircraft are delivered. All support services related to these deliveries are provided for.

b) Long-term contracts

For long-term contracts, sales are recorded upon delivery, or when technical milestones are met.

Estimated profits on these contracts are recorded using the percentage of completion method.

3.10. Research and development costs

Research and development costs wholly-financed from internally-generated resources are expensed as incurred.

Partly-financed research and development costs, expensed as related sales or other income, are recognized using the percentage of completion method.

The cost of specialized tooling for commercial production is capitalized and amortized over five years using the straight-line method.

3.11. Financial instruments

Hedging of exchange rate risk

Since Aerospatiale Matra has a large number of contracts denominated in foreign currencies, in particular U.S. dollars in the aviation sector, it manages its global exchange risk by hedging, in addition to certain specific transactions, short-term cash flow from sales, net of expenses, corresponding to firm orders as at the end of the financial year by forward or option trading (European-style options, with or without knock-out options).

The Group uses in particular zero premium hedging strategies, consisting of purchasing put options, financed by selling call options. Within the scope of these strategies, premiums paid and received are immediately and symmetrically recorded in the income statement, irrespective of the exercise dates of the options.

Other premiums paid or received from non-zero payment hedging strategies are recorded in the balance sheet under prepaid income and expenses and included as income when the options reach their exercise date or when a knock-out threshold is exceeded.

Exchange differences resulting from hedging of commercial transactions are recorded in operating results.

However, the listing on the market of part of Aero-spatiale Matra's capital justified a new dollar hedging strategy, covered in Note 5-12. The cost of the changeover to the new strategy was recorded under extraordinary expenses.

Income corresponding to the completion of aircraft sales contracts is calculated by using the price of forward sales contracts or the price of put options considered "secure" (with no knock-out options), within the limit of the volume of available hedges and for the position of the order book exceeding the volume of hedges as follows:

- the closing rate if the dollar closes at a price lower than the average price of call options.
- the average price of call options if the closing rate of the dollar is higher.

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

Hedging of interest rate risk

Aerospatiale Matra also manages its exchange rate risks by using instruments such as options, swaps and FRAs.

Interest received or paid under interest rate swaps is spread over the duration of the underlying loans hedged.

Premiums paid and received are recorded in the balance sheet and are taken to the income statement on a prorata basis over the duration of the operation.

3.12. Statement of cash flows

The statement of cash flows is established using the indirect method that reconciles income to cash flow from operations.

Starting this year, cash flow no longer takes into account internally-financed research and development. The definition of cash position was also changed: henceforth, cash position comprises, in addition to bank loans and marketable securities, loans to non-consolidated subsidiaries. However, current bank overdrafts and debts covered by treasury agreements with non-consolidated subsidiaries were deducted from the cash position.

4 — COMPARABILITY OF FINANCIAL STATEMENTS

The consolidated balance sheet for the year ended December 31, 1999 is compared to the balance sheets ending December 31, 1998 and 1997, as well as the pro forma balance sheet for the year ended December 31, 1998. The statement of income for financial year 1999 is compared to those for 1998 and 1997, as well as to the pro forma statement for 1998. The pro forma statements were drawn up as if the government's transfer of its stake in Dassault Aviation, as well as the transfer by Lagardère SCA of Matra Hautes Technologies shares, had taken place on January 1, 1998, and were presented after distribution of Thomson-CSF shares to shareholders. The pro forma financial statements for the year ended December 31, 1998 were published in a Reference Document registered on April 19, 1999.

The income from the divestment that had been shown in operating income for the statements ending on December 31, 1998, was re-classified as extraordinary income.

Since the 1998 pro forma statement of cash flows was neither established, nor shown in the Reference Document, the 1998 statement of cash flows shown in comparison with the statement for 1999 is the one published on December 31, 1998, which includes neither the transfer of Dassault Aviation shares, nor those of Matra Hautes Technologies. However, this statement was nonetheless restated, as for the 1997 statement, in light of the new presentation methods described in section 3.12 (cash flow excluding research & development costs, a new definition of cash position).

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

5 — NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (FF millions)

A — Notes to the consolidated balance sheet

Note 1 — Intangible assets

	December 31, 1999			December 31,	
	Gross	Amort., Dep or provisions	Net	1998 Net	1997 Net
Startup costs.....	3	3	0	0	1
Initial consolidation difference:					
Matra Hautes Technologies	2,295	115	2,180		
APIC.....	5	2	3		
Barfield	26	18	8	10	12
REVIMA	28	22	6	11	17
SODERN	95	19	76	86	95
MDTV.....	4	4	0		
SOGERMA.....	46	5	41	43	—
	<u>2,499</u>	<u>185</u>	<u>2,314</u>	<u>150</u>	<u>124</u>
Concessions, patents, licenses, software and other.....	2,557	2,187	370	295	252
Goodwill.....	131	100	31	1	1
Work-in-process, advances and down payments	<u>137</u>	<u>—</u>	<u>137</u>	<u>141</u>	<u>161</u>
Total	<u>5,327</u>	<u>2,475</u>	<u>2,852</u>	<u>587</u>	<u>539</u>

Investments for the year totaled FF 371 million, compared with FF 202 million in 1998 and FF 239 million in 1997.

For the French state's transfer of Dassault Aviation shares, the goodwill in Dassault Aviation's consolidated balance sheet of FF 181 million (Aerospatiale Matra share) was not valued in the transfer agreement.

Goodwill generated by the transfer of Matra Hautes Technologies shares, including the net goodwill and the assets in Matra Hautes Technologies' consolidated financial statements, amounted to FF 3,809 million. Of this goodwill, FF 1,514 million was allocated to shareholders' equity; the balance was maintained as goodwill worth FF 2,295 million and amortized over 20 years.

If all of these differences concerning Matra Hautes Technologies had been retained in the balance sheet, the annual amortization expense would have increased by FF 76 million.

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

Note 2 — Tangible assets

	December 31, 1999			December 31,	
	Gross	Amort., Dep or provisions	Net	1998 Net	1997 Net
Land.....	975	249	726	498	465
Buildings.....	10,573	6,526	4,047	3,718	3,691
Specialized complex facilities.....	1,849	761	1,088	706	795
Plant, machinery and equipment.....	16,105	12,907	3,198	2,381	1,971
Other.....	4,765	3,704	1,061	775	484
Work-in-process, advances and down payments.....	1,632	164	1,468	1,002	956
	<u>35,899</u>	<u>24,311</u>	<u>11,588</u>	<u>9,080</u>	<u>8,362</u>
Including leased assets (capitalized)					
Land.....	47		47	3	3
Buildings.....	731	376	355	335	364
Specialized complex facilities and equipment.....	1,838	1,063	775	706	795
Leased helicopters.....	177	55	122	154	174
	<u>2,793</u>	<u>1,494</u>	<u>1,299</u>	<u>1,198</u>	<u>1,336</u>
Net at December 31, 1997			8,362		
Acquisitions.....			2,277		
Disposals.....			(459)		
Depreciation and amortization.....			(1,417)		
Exchange differences and changes in consolidation scope			(315)		
Impact of transfer of Dassault Aviation.....			632		
Net at December 31, 1998			9,080		
Transfer of Matra Hautes Technologies.....			1,673		
Acquisitions.....			3,040		
Disposals.....			(233)		
Depreciation and amortization.....			(2,204)		
Exchange differences and changes in consolidation scope			232		
Net at December 31, 1999			<u>11,588</u>		

Note 3 — Companies accounted for by the equity method

	December 31, 1999				December 31,	
	%	Share- holders' equity	Income	Total	1998	1997
ATEV (and its subsidiary Sextant).....				0	1,062	664
SOFEMA.....	25.42	64		64	56	58
OGA.....	34.73	76	7	83	51	53
Airbus Finance Company.....	37.90	580	5	585	498	500
Airbus Industrie Financial Services ^(*)	37.90			pm	pm	pm
Companies in MMS group.....		6		6		
Missile sector companies.....		34	18	52		
Dassault Aviation equity stakes.....		38	3	41	39	
Total		<u>798</u>	<u>33</u>	<u>831</u>	<u>1,706</u>	<u>1,275</u>

(*) AIFS's capital includes two categories of shares in addition to those held by Airbus Industrie, which give the company all the voting rights, but no rights to income or reserves.

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

CHANGES IN COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD

Total at December 31, 1997	1,275
Dividends paid.....	(11)
Dassault Aviation equity stakes.....	39
Exchange differences and change in consolidation scope (including Sextant: FF340 million).....	303
Share in net income for the year.....	<u>100</u>
Total at December 31, 1998	1,706
Transfer of Matra Hautes Technologies.....	260
Dividends paid.....	(22)
Disposal of ATEV.....	(1,062)
Disposal of Nortel Matra Cellular.....	(181)
Exchange differences and change in consolidation scope.....	97
Share in net income for the year.....	<u>33</u>
Total at December 31, 1999	<u><u>831</u></u>

The condensed balance sheets of financing companies consolidated by the equity method, and converted into francs at the exchange rate of \$1 = FF 6.53 at December 31, 1999, and FF 5.62 at December 31, 1998, are as follows:

AIRBUS FINANCE COMPANY (IN WHICH AEROSPATIALE MATRA HOLDS 37.9%) (FF millions)

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
Tangible assets (aircraft).....	1,274	1,684
Receivables.....	2,696	1,324
Cash and equivalents.....	<u>694</u>	<u>19</u>
Total	<u><u>4,664</u></u>	<u><u>3,027</u></u>
Shareholders' equity.....	1,546	1,317
Provisions.....	97	58
Debt.....	2,991	1,523
Other payables.....	<u>30</u>	<u>129</u>
Total	<u><u>4,664</u></u>	<u><u>3,027</u></u>

The company recorded two new financing contracts, leading to an increase of \$172 million in debt and receivables.

Debt is denominated in dollars and has the following maturities:

	<u>Due within</u>	<u>1 to</u>	<u>More than</u>	<u>Total</u>
	<u>1 year</u>	<u>5 years</u>	<u>5 years</u>	
	74	1,611	1,306	2,991
		<u>Before</u>	<u>After</u>	
		<u>swap</u>	<u>swap</u>	
		<u>transactions</u>	<u>transactions</u>	
Variable-rate debt.....		1,685	2,991	
Fixed-rate debt.....		<u>1,306</u>	<u>0</u>	
Total		<u><u>2,991</u></u>	<u><u>2,991</u></u>	

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

AIRBUS INDUSTRIE FINANCIAL SERVICES (IN WHICH AEROSPATIALE MATRA INDIRECTLY HOLDS 37.9%) (FF millions)

	December 31,	
	1999	1998
Tangible assets (aircraft)	14,451	13,550
Loans to Airbus Industrie ^(*)	5,629	517
Receivables.....	10,180	8,014
Cash and equivalents.....	235	146
Total	30,495	22,227
Shareholders' equity	241	191
Provisions	235	281
Loans by Airbus Industrie.....	10,997	8,492
Other payables ^(*)	19,022	13,263
Total	30,495	22,227

(*) In 1999, AIFS borrowed \$800 million from a trust that issued bonds equal to the actual value of lease amounts still owed by Airbus Industrie customers, equal to \$1,689 million, and which undertook to transfer to the consortium the sums needed to pay the leases to the investors having financed the sale of the corresponding aircraft. AIFS subsequently made a long-term investment for this amount in Airbus Industrie.

Debt is denominated in dollars and has the following maturities:

	Due within 1 year	1 to 5 years	More than 5 years	Total
Variable-rate debt	1,535	17,487		19,022
Fixed-rate debt.....	—	—	—	8,371
Total	—	—	—	19,022

Tangible assets correspond to the net value of aircraft covered by leasing contracts. Receivables consist principally of financial leasing contracts.

The guarantees given by these companies are included in Note 13 and, where appropriate, give rise to provisions as outlined in Note 9.

Note 4 — Loans and investments

	December 31,			December 31,	
	Gross	Amort. or provisions	Net	1999 Net	1998 Net
Investment securities	1,728	207	1,521	1,993	892
Loans to investees	398	2	396	277	178
Loans	501	67	434	437	486
Other financial assets.....	319	3	316	265	441
Total	2,946	279	2,667	2,972	1,997

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

CHANGES IN LOANS AND INVESTMENTS

	<u>Gross</u>	<u>Amort. or provisions</u>	<u>Net</u>
At December 31, 1997	1,096	204	892
Transfer of Dassault Aviation	26	1	25
Acquisitions and subscriptions.....	1,516		1,516
Disposals and reduction in capital.....	(443)	(3)	(440)
Change in consolidation scope and exchange differences	0		
At December 31, 1998	2,195	202	1,993
Transfer of Matra Hautes Technologies	114	20	94
Acquisitions and subscriptions.....	829		829
Redistribution to shareholders of Thomson CSF shares.....	(1,333)		(1,333)
Disposals and reduction in capital.....	(95)		(95)
Changes in provisions.....		(33)	33
Other changes in consolidation scope and exchange differences	18	18	0
At December 31, 1999	<u>1,728</u>	<u>207</u>	<u>1,521</u>

LIST OF MAIN NON-CONSOLIDATED EQUITY INVESTMENTS

	Share held (%)	<u>December 31, 1999</u>			<u>December 31,</u>	
		<u>Gross</u>	<u>Provisions</u>	<u>Net</u>	<u>1998</u>	<u>1997</u>
					<u>Net</u>	<u>Net</u>
Thomson CSF.....				0	1,333	0
Arianespace Participation.....	12.26	245		245	204	357
Unilaser	99.99	181	108	73	76	
Sopartech.....	2.18	44		44	44	90
Aerospatiale Batteries.....		37		37	37	76
Sycomore Holding		33		33	33	44
ATR Ireland Ltd.....	50.00	23		23	23	23
Nahuelsat				0	53	50
STARSEM.....		132		132	0	50
EMBRAER.....		630		630		
Other.....		<u>403</u>	<u>99</u>	<u>304</u>	<u>190</u>	<u>202</u>
Total		<u>1,728</u>	<u>207</u>	<u>1,521</u>	<u>1,993</u>	<u>892</u>

Note 5 — Inventories and work-in-process

	<u>December 31, 1999</u>			<u>December 31, 1998</u>			<u>December 31,</u>
	<u>Gross</u>	<u>Provisions</u>	<u>Net</u>	<u>Gross</u>	<u>Provisions</u>	<u>Net</u>	<u>1997</u>
							<u>Net</u>
Raw materials and other supplies.....	3,911	726	3,185	2,746	568	2,178	1,721
Work-in-process (production).....	24,490	353	24,137	18,115	351	17,764	12,096
Semi-finished and finished products....	<u>12,187</u>	<u>2,093</u>	<u>10,094</u>	<u>11,533</u>	<u>1,836</u>	<u>9,697</u>	<u>8,236</u>
Total	<u>40,588</u>	<u>3,172</u>	<u>37,416</u>	<u>32,394</u>	<u>2,755</u>	<u>29,639</u>	<u>22,053</u>

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

The breakdown by business sector is as follows:

	December 31, 1999
Aircraft.....	19,661
Dassault Aviation.....	8,745
Missiles.....	4,847
Space.....	3,193
Systems, Services and Telecommunications.....	934
Other.....	36
Total	37,416

Note 6 — Receivables

	December 31, 1999			December 31, 1998			December 31, 1997
	Gross	Provisions	Net	Gross	Provisions	Net	Net
Accounts receivable.....	24,442	2,181	22,261	19,110	1,881	17,229	14,743
Sundry receivables.....	11,529	14	11,515	7,533	9	7,524	7,124
Total	35,971	2,195	33,776	26,643	1,890	24,753	21,867

At December 31, 1999, “Sundry receivables” included deferred tax assets amounting to FF 661 million, which correspond primarily to non-tax deductible provisions, compared with FF 217 million at December 31, 1998.

Note 7 — Prepaid expenses

This heading includes FF 26 million in premiums paid on exchange rate options (excluding zero-payment strategies), compared with FF 416 million in 1998, which included a FF 156 million increase in the exercise price rolled over forward contracts. Premiums paid and received on option sales within the scope of the zero-payment strategies are immediately recorded in the income statement.

This heading also includes commercial and support expenses (pilot training, insurance, etc.) undertaken for aircraft to be delivered, amounting to FF 1,752 million francs at December 31, 1999, compared with FF 1,608 million in 1998. These expenses, related to customer contracts, are included in calculating income upon completion of the contracts and recorded as expense when the aircraft is delivered.

Note 8 — Shareholders' equity

The capital stock comprises 403,687,775 shares, each of 20 French francs par value.

Changes in shareholders' equity are shown in a table following the balance sheet.

	Shareholders' equity	Income	Total	December 31, 1998
The minority interests represent:				
DaimlerChrysler Aerospace's share in Eurocopter.....	1,067	152	1,219	1,054
Minority interests in Sogerma and its subsidiaries.....	84	6	90	87
Other.....	2	(1)	1	2
Total	1,153	157	1,310	1,143

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

Note 9 — Provisions for contingencies

	December 31,			
	1999	1998	1998	1997
		pro forma		
Contract losses	237	347	218	338
Client guarantees	1,495	1,243	936	614
Financial guarantees on aircraft sales	2,542	2,123	2,123	1,873
Risks and penalties on contracts	869	637	365	430
Services to be supplied	1,747	1,371	1,303	1,071
Retirement indemnities and long-service bonuses	3,507	3,245	2,996	2,363
Restructuring charges	463	383	125	351
Other risks and charges	1,437	1,194	932	585
Deferred taxes	95	77	71	1
Total	<u>12,392</u>	<u>10,620</u>	<u>9,069</u>	<u>7,626</u>

The impact of changes in exchange rates, primarily concerning the U.S. dollar (6.53 francs/dollar at Dec. 31, 1999, versus 5.62 at Dec. 31, 1998), represents a FF 675 million increase in provisions.

RETIREMENT AND LONG-SERVICE COMMITMENTS

	December 31,		
	1999	1998	1997
Assumptions			
Discount rate	5%	5%	6%
Rate of increase in salaries	3%	3%	3%
Actuarial value of accumulated rights.....	4,302	3,797	2,795
Non-amortized actuarial losses.....	795	801	432
Obligation recorded in the balance sheet	<u>3,507</u>	<u>2,996</u>	<u>2,363</u>

The net provision is broken down as follows:

	December 31,		
	1999	1998	1997
Rights acquired during the year	153	119	108
Rights exercised during the year	(128)	(114)	(85)
Financial cost of the actuarial value of rights accumulated with projected salaries	184	173	162
Amortization of the deferred actuarial losses.....	49	48	31
Net retirement and long-service charges	<u>258</u>	<u>226</u>	<u>216</u>

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

Note 10 — Borrowings and net debt

	<u>December 31, 1999</u>			<u>December 31,</u>	
	<u>Up to 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>1998</u>	<u>1997</u>
Bonds					
Domestic bonds					
9.6% — Feb. 1991		898		898	898
9.4% — Sept. 1991		807		807	807
zero coupon — February 1992, due 2002		140		140	140
8.7% — November 1992, due 2002		804		804	803
Foreign bonds					
9.125% — March and June 1992, due 2002		1,614		1,614	1,614
8.375% — February 1993, due 2003		260		260	260
100 million Swiss francs — 4.75% — May 1993, due 1998					378
7% — July 1993, due 2003		594		594	594
Company savings plan	93	419		512	367
	<u>93</u>	<u>5,536</u>		<u>5,629</u>	<u>5,484</u>
				<u>5,629</u>	<u>5,906</u>
Loans and advances from financial institutions	309	2,831	308	3,448	2,158
Financing of leased assets	139	508	883	1,530	1,311
Other debts	354	471	236	1,061	456
Cur rent debt	2,318			2,318	1,404
(Treasury notes and short-term debt)					
Current cash accounts at non-consolidated subsidiaries	269			269	
Total	<u>3,482</u>	<u>9,346</u>	<u>1,427</u>	<u>14,255</u>	<u>10,813</u>
				<u>14,255</u>	<u>11,754</u>

These entries are broken down as follows at year-end 1999:

BY CURRENCY

	<u>Rate</u>	<u>Value in currency</u>	<u>Equivalent value in FF</u>
Euros	6.55957	1,715	11,249
U.S.\$	6.53	421	2,746
Other			260
Total equivalent value in French francs			<u>14,255</u>

BY TYPE OF INTEREST RATE

	<u>Before swap transactions</u>	<u>After swap transactions</u>
Variable-rate debt	2,793	4,230
Fixed-rate debt	11,462	10,025
Total	<u>14,255</u>	<u>14,255</u>

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

NET DEBT

	December 31, 1999	January 1, 1999
Borrowings (including FF 210 million in advances to non-consolidated companies under cash management agreements, as of January 1, 1999).....	14,255	13,329
Less: Marketable securities	(13,547)	(7,918)
Cash and equivalents (including FF 100 million in loans to non-consolidated companies under cash management agreements, as of December 31, 1998)....	(5,120)	(5,230)
Net debt (+) or cash (-)	(4,412)	181
Decrease in net debt	(4,593)	
		December 31,
		1999 1998
Valuation of marketable securities		
Book value	13,547	7,918
Market value	14,467	8,670

At December 31, 1999, Aerospatiale Matra had a line of credit for 500 million dollars through 2002.

Note 11 — Deferred income

This heading included FF 110 million in premiums received on sales of exchange rate options (excluding zero-payment strategies) at year-end 1998.

The amounts paid and collected on option purchases within the scope of the zero-payment strategies are immediately recorded in the income statement.

Note 12 — Interest and exchange rate risk management

1) FINANCIAL INSTRUMENTS

The financial instruments used by the Group are intended to hedge the risks related to its operating activities and the management of its cash position.

The counterparty risk associated with these instruments is managed by centralizing commitments and by procedures that define risk limits, by type of transaction, instrument and counterparty. All these transactions are subject to internal controls and direct supervision by General Management.

The interest and exchange rate risks of most Group companies are managed centrally by the parent company.

The Group's interest and exchange rate risk management policy is as follows:

1.1 — Exchange rate risk

1.1.1 — General principles

Exchange rate risk is managed using forward sales contracts and purchasing put options at levels that guarantee sufficient profitability for the Group.

The cost of purchasing put options is offset by selling call options. This results in a "tunnel" hedging strategy, whereby the guaranteed price lies between the two exercise prices of the options concerned.

Within the scope of zero-payment strategies, which are only a specific application of the hedging strategy outlined above, the premiums paid on put option purchases are funded by the premiums received on call option sales, which can involve higher amounts or longer maturity dates than those relating to put option purchases.

Thus, on a given date, call options may be sold for greater values than for outstanding put options, but their exercise prices guarantee profitable aircraft business and their volume remains consistent with the order book.

To the extent that future sales are covered by the net position of call options written, the applicable conversion rate is restricted should the dollar rise above the exercise price of call options written. To the extent that the company is guaranteed to receive dollars within the scope of its business transactions, or, since 1999, from its

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

subsidiaries with which it has signed cash management agreements, this possible ceiling to the conversion rate can only result in an earnings opportunity loss for the Group.

1.1.2 — Exchange rate risk management in 1999

The initial public offering of part of Aerospatiale Matra's stock led to a new dollar hedging strategy, which can be summarized as follows:

- identical terms for the "puts" and "calls" portfolios;
- similar maturity dates of current instruments and the net dollar flows expected from the order book.

Aerospatiale Matra therefore completed its hedging arrangement to ensure that the dollar flows for financial year 2000 will be sold at an exchange rate of about 5.50 francs/dollar, and that the rates for 2001 and 2002 would be as follows:

- half sold at a dollar exchange rate of 5.50 to 5.60 francs;
- the other half sold at a rate 40 centimes higher than the market dollar rate, with a ceiling on this sales rate of 5.50 to 5.60 francs.

To accomplish this, it has completed its portfolio of puts and put spreads and carried over its surplus call sales for 1999 to 2000-2002.

The restructuring cost of FF 2,628 million was recorded under exceptional items.

Approximately 1 billion dollars in surplus call sales over expected dollar flows was outstanding at December 31, 1999, and this amount will be carried over to 2003 at a rate ceiling of approximately 5.50 francs.

1.2 — Interest rate risk

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

Hedging instruments are specific to individual debt instruments with a nominal amount at least equal and with equivalent or subsequent maturity dates to those of the instruments.

2 — HEDGING OF EXCHANGE RATE RISK

The positions in U.S. dollars by instrument are as follows:

	December 31,		
	1999	1998	1997
	(\$ millions)		
Secure hedges			
Net forward sales contracts	2,253	1,130	2,561
Put options without knock-out options.....	4,817	658	710
combination of puts purchases and sales at lower rates (puts spread).....	3,065		
Other			
Put options with knock-out options ^(*)	547	3,060	4,997

(*) Instruments that are not secure are not included in exchange rate hedging.

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

The call sales carried out within the scope of zero (or reduced) premium hedging strategies are as follows:

	December 31,		
	1999	1998	1997
	(\$ millions)		
Sale of call options	11,241	14,064	17,788
Purchase of call options	33	2,476	4,430
Net sales	11,208	11,588	13,358
of which knock-out options	10,366	3,053	6,567
Sale of call options with knock-out options.....	0	300	1,050

These net sales of call options are lower than the net inflows of dollars guaranteed by the Group's order book.

The average dollar sale price, resulting from the use of hedging instruments, was 5.49 francs in 1999, compared with 5.22 francs in 1998 (5.51 excluding FF 699 million in costs of partial restructuring of the hedging strategy in 1998).

The hedging instruments used at December 31, 1999, broken down by year of maturity, are as follows:

	Total	2000	2001	2002	2003
Net forward sales contracts	2,253	1,650	399	195	9
Purchase of put options without knock-out options.....	4,817	1,835	2,682	300	
Purchase of puts spread.....	3,065		325	2,740	
Purchase of put options with knock-out options	547	364	183		
Sale of call options with or without knock-out options, net.....	11,208	3,124	3,801	4,283	—

Positions on other currencies at December 31, 1999 were as follows:

	Total	2000	2001	2002	2003
Net forward sales contracts	923	769	135	10	9
Net purchases of put options	0				
Sales of call options	0	—	—	—	—

3 — HEDGING OF INTEREST RATE RISK

The positions by instrument at December 31, 1999 were as follows:

<u>At December 31, 1999</u>	<u>Total</u>	Residual maturity		
		Up to 1 year	1 to 5 years	Over 5 years
Rate swap				
Fixed-rate borrower	1,255		1,255	
Fixed-rate lender	3,450	255	3,195	
CAP purchases	560	324	236	
CAP sales	0			
Floor purchases	0			
Floor sales.....	313	77	236	—

Aerospatiale Matra swapped the long-term rates of its bonds and other fixed-rate loans against variable rates for a total of FF 1,437 million, compared with FF 1,350 million in 1998.

At year-end 1998, Aerospatiale Matra, which makes short-term loans to its subsidiaries at the average daily money market rate (TMP), within the scope of a centralized group cash management strategy, swapped the issue rates of its treasury notes against the average daily money market and average monthly money market rates (TMP and T4M), resulting in a total of outstanding swaps of FF 100 million at year-end 1998.

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

4 — MARKET VALUE FOR FINANCIAL INSTRUMENTS IN U.S.DOLLAR POSITIONS

The methods and assumptions used to provide the information below are by nature theoretical. They include the following limits:

- estimated market values corresponding to amounts which would be received or paid to cancel these commitments at a given date, calculated on the basis of closing market rates;
- consequently, these values are not representative of the gains or losses recorded upon maturity;
- in addition, they do not take into account the impact of subsequent changes in interest rates and exchange rates.

<u>Market value</u>	December 31,	
	1999	1998
	(FF millions)	
Forward sales and purchase contracts	(1,492)	134
Exchange rate options	(7,852)	(2,168)
Total	(9,344)	(2,034)

The change in market value mainly reflects the rise in the dollar exchange rate, from 5.62 francs/dollar at December 31, 1998 to 6.53 francs/dollar a year later. Because the company had frozen the dollar rate for flows in 2000, 2001 and 2002, and ensured a margin over the market rate, with a ceiling at about 5.50 francs/dollar, the change in the market value of these hedges had no effect on the dollar level at which future flows will be received.

Note 13 — Guarantees given

	December 31,		
	1999	1998	1997
	(\$ millions)		
Leasing ^(a)	979	376	619
Retirement commitments ^(b)	795	801	432
Net commitments to finance the sale of aircraft ^(c)	1,541	1,971	2,982
Deposits related to satellite business	266	1,403	
Guarantee for a line of credit granted to Airbus Finance Company ^{(d)(*)}	3,589	3,090	3,291
Other deposits	1,856	1,001	712
Other commitments (market deposits, etc.) ^(**)	18,012	1,705	1,273
Total	26,772	9,210	10,712

(*) including guarantee that has been used

	1,025	579	563
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(**) including guarantees for Matra Hautes Technologies

	15,639
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(a) Leasing: Commitments for leasehold contracts of which the unit amount is not material and which are not restated in the consolidated financial statements.

(b) Retirement commitments: Share of the current value of retirement indemnities (and possible supplementary benefits) resulting from a change in actuarial assumptions (discount rates), which is being recorded over several years.

(c) The financial commitments for delivered aircraft correspond to the Group share (37.9% for Airbus Industrie and 50% for ATR) of gross commitments resulting from aircraft sale contracts signed by the consortiums, less counter-guarantees received from third parties, the estimated market value of aircraft concerned (determined on the basis of data given by independent entities specialized in establishing prices for secondhand civil aircraft and to which a discount is systematically applied) and provisions for risks recorded.

(d) Guarantee for a line of credit granted to AFC. As guarantee for a \$1,450 million multi-currency revolving line of credit granted to Airbus Finance Company, Aerospatiale Matra guaranteed its share of \$549.55 million. As of December 31, 1999, only \$157 million of this credit line had been used for Aerospatiale Matra's share.

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

B — Notes to the statement of income

Note 14 — Consolidated sales

The various business sectors contributed to consolidated sales as follows:

	1999			1998		1998 Published	1997
	France	Export	Total	Pro forma current scope	Pro forma published		
Aircraft							
Airbus	2,763	33,124	35,887	28,626	27,420	27,420	26,996
Helicopters.....	2,072	9,428	11,500	11,139	11,139	11,139	10,191
Other aviation operations.....	1,547	4,034	5,581	5,084	6,712	6,830	6,716
Aircraft total	<u>6,382</u>	<u>46,586</u>	<u>52,968</u>	<u>44,849</u>	<u>45,271</u>	<u>45,389</u>	<u>43,903</u>
Dassault Aviation.....	2,744	5,904	8,648	9,217	9,217		
Space.....	7,242	2,477	9,719	9,910	9,999	5,966	5,420
Missile Systems.....	3,275	4,292	7,567	10,931	10,931	3,438	3,208
Systems, Services and Telecommunications	3,641	2,002	5,643	5,651	5,140		
Other.....	39	24	63	76	76	76	57
Total	<u>23,323</u>	<u>61,285</u>	<u>84,608</u>	<u>80,634</u>	<u>80,634</u>	<u>54,869</u>	<u>52,588</u>
Contribution of the satellite business, sold in 1998.....							3,705
Total	<u>23,323</u>	<u>61,285</u>	<u>84,608</u>	<u>80,634</u>	<u>80,634</u>	<u>54,869</u>	<u>56,293</u>

Because of the creation, effective January 1, 1999, of the companies Aerospatiale Matra Airbus and Aerospatiale Matra Lanceurs, the scopes of consolidation for the Airbus, Space and Systems, Services and Telecommunications businesses were slightly modified in relation to those specified in the Reference Document.

Sales in markets outside of France accounted for 72.4% of the total.

The hedged dollar rate for Airbus and ATR business was 5.50 francs per U.S. dollar in 1999, compared with 5.22 francs in 1998 (5.51 francs excluding FF 699 million cost of the partial restructuring of the hedging arrangement in 1998).

As there is no formal agreement between Airbus Industrie and its partners on the price of services that partners render within the scope of the long-range program, these services are currently billed on the basis of provisional prices which take into account ongoing negotiations among partners.

The share of sales by geographic area for 1999 is as follows:

	1999
France.....	23,323
Germany.....	5,024
United Kingdom.....	5,139
Other EU countries.....	11,083
Other European countries.....	<u>5,323</u>
Total Europe	<u>49,892</u>
North America	17,566
South America	2,839
Asia-Pacific	7,244
Africa and Middle East.....	<u>7,067</u>
Total	<u>84,608</u>

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

Note 15 — Operating income by business segment

	1999	1998		1998 Published	1997
		Pro forma current scope	Pro forma published		
Aircraft					
Airbus ^(*)	1,239	49	(68)	(68)	1,131
Helicopters.....	499	498	498	498	4
Other aviation operations ^(*)	166	(131)	(14)	(14)	15
Total aircraft	<u>1,904</u>	<u>416</u>	<u>416</u>	<u>416</u>	<u>1,150</u>
Dassault Aviation.....	826	847	847		
Missile Systems.....	201	1,493	1,548	(341)	(196)
Space.....	224	598	598	334	191
Systems, Services and Telecommunications.....	(77)	(168)	(168)		
Other.....	69	55	0	0	(67)
Total	<u>3,147</u>	<u>3,241</u>	<u>3,241</u>	<u>409</u>	<u>1,078</u>

(*) The amounts for Airbus and other aviation operations in 1999 were restated to integrate the changes in scope of consolidation due to the spinoff operations in 1999.

Note 16 — Financial items

	1999	1998 pro forma	1998 published	1997
Dividends and share of income from joint ventures.....	66	29	29	63
Net financial expenses.....				
Other interest and similar income.....	950	954	823	864
Interest and similar charges.....	(1,088)	(1,034)	(905)	(953)
Net income on sale of marketable securities.....	107	5	(12)	37
Total	<u>(31)</u>	<u>(75)</u>	<u>(94)</u>	<u>(52)</u>
Exchange differences, increases/decreases in provisions.....	(408)	1	7	85
Other increases/decreases in financial provisions and depreciation.....	(223)	(12)	(6)	(4)
Total	<u>(596)</u>	<u>(57)</u>	<u>(64)</u>	<u>92</u>

Exchange differences concerned Airbus Industrie (FF 239 million), Aerospatiale Matra (FF 78 million), Dassault Aviation (FF 42 million) and Matra Nortel Communications (FF 55 million).

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

Note 17 — Exceptional items

	<u>1999</u>	<u>1998</u>	<u>1998</u>	<u>1997</u>
		pro forma	published	
Income on sale of fixed assets.....	1,956	1,808	1,138	221
1999: sale of ATEV FF 1,196m, Nahuelsat FF 81m, part of MDTV FF 192m, Nortel Matra Cellular FF 227m, part of the avionics business FF 200m;				
1998: transfer to Thomson CSF of satellite business FF 666m; transfer of shares in satellite business, FF 423m, and telecommunications FF 655m				
Exceptional amortization and depreciation.....	(45)			
Restructuring expenses.....	(416)	(642)	(355)	(145)
Expenses incurred within the scope of strategic operations (link-up with Matra Hautes Technologies and privatization)		(45)	(45)	
Employer matching contribution for employee shares	(359)			
Y2K rollover costs.....	(29)			
Provisions for external costs and risks linked to the Y2K transition.....	74	(74)	(74)	
Provisions for costs involved in spinning off subsidiaries.....	33	(33)	(33)	
Costs of restructuring hedging operations.....	(2,628)			
Other exceptional income and expenses	(102)	(82)	(59)	(5)
Provisions for tax audit.....	(164)			
Total	<u>(1,680)</u>	<u>932</u>	<u>572</u>	<u>71</u>

Note 18 — Tax situation

Since January 1, 1991, the company has applied the tax consolidation regime. Taxes are calculated on the basis of consolidated taxable income, including French and foreign subsidiaries, with the taxes paid by each subsidiary deducted from the total amount to be paid. If applicable, taxes paid by the French subsidiaries which cannot be allocated give rise to a reimbursement to the parent company.

	<u>1999</u>	<u>1998</u>	<u>1998</u>	<u>1997</u>
		pro forma	published	
Net taxes for consolidated group.....	(142)	7	7	8
Tax to be paid for entities not included in the tax consolidation regime.....	(386)	(1,299)	(37)	(2)
Tax credit for carry-back of deficits for minority shareholders.....				7
Back taxes due to audit	(140)			
Deferred tax.....	260	102	142	5
Research tax credit		40	40	
Total	<u>(408)</u>	<u>(1,150)</u>	<u>152</u>	<u>18</u>

Since December 31, 1998, the consolidated Aerospatiale Group no longer has any consolidated tax loss carry-forwards.

Movements in the balance sheet are as follows:

	<u>December 31, 1998</u>	<u>Contributions</u>	<u>Income</u>	<u>Other movements</u>	<u>December 31, 1999</u>
Deferred tax assets.....	217	280	209	(45)	661
Deferred tax liabilities.....	(71)	(77)	51	2	(95)
Net	<u>146</u>	<u>203</u>	<u>260</u>	<u>(43)</u>	<u>566</u>

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

Note 19 — Income from companies accounted for by the equity method

	1999		1998 pro forma	
	%	Share of	%	Share of
	<u>interest</u>	<u>net income</u>	<u>interest</u>	<u>net income</u>
Sextant.....			50.00	67
SOFEMA (formerly OFEMA).....	25.42		22.05	4
OGA.....	34.73	7	21.69	4
Airbus Finance Company and other financing companies	37.90	5	37.90	25
Nortel Matra Cellular.....			17.00	34
Other.....		<u>21</u>		<u>15</u>
Total		<u><u>33</u></u>		<u><u>149</u></u>

Note 20 — Research, Development and Industrialization expenses

The innovation effort (research, development and industrialization activities), which helps build the company's technological skills base, is defined by two concepts:

- Internally-financed RDI effort. This refers to all RDI investments, whether capitalized or directly recorded as expense, which are not financed by contracts.
- Internally-financed RDI expense. This reflects the impact of RDI on income: costs recorded as expense, amortization of capitalized expenses, net reimbursement of refundable advances.

The following figures exclude Dassault Aviation.

	<u>1999</u>	<u>1998^(*)</u>	<u>1997^(*)</u>
Internally-financed RDI effort⁽¹⁾	4,910	3,849	3,457
+ Net charges for repayment of government advances	761	1,297	817
- Capitalized production (specialized tooling).....	(608)	(293)	(85)
+ Depreciation of capitalized expenses	<u>120</u>	<u>92</u>	<u>162</u>
Internally-financed RDI expense	<u><u>5,183</u></u>	<u><u>4,945</u></u>	<u><u>4,351</u></u>

(1) excluding software costs, since this is not part of the company's core business.

(*) Figures for 1998 and 1997 do not include either Matra Hautes Technologies or Dassault Aviation.

Note 21 — Workforce

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Workforce of consolidated companies at December 31	52,890	37,120	37,690
Full-time job equivalents (taking into account persons working part time).....	<u>52,387</u>	<u>36,647</u>	<u>37,157</u>

Note 22 — Other information

The company, initially organized with a Board of Directors, was converted on June 11, 1999 into a company with a Management Board and a Supervisory Board.

Until that date, the fees paid to certain directors as well as remuneration of corporate officers (8 persons) totaled FF 7.2 million.

Effective June 11 until December 31, 1999, the fees for the members of the Management Board and the Executive Committee (13 people) totaled FF 12.4 million. A total of FF 0.9 million was paid to members of the Supervisory Board.

In 1998, total fees of FF 12.2 million were paid.

AEROSPATIALE MATRA

Notes to the consolidated financial statements — (Continued)

C — Notes to the statement of cash flows

Note 23 — Disposals of or reductions in fixed assets in 1999

	<u>1999</u>	<u>1998^(*)</u>
ATEV shares (stake in Sextant) transferred to Thomson CSF	2,222	
Nahuelsat shares	134	
Shares in the satellite subsidiary transferred to Thomson CSF.....		1,333
Other satellite business interests transferred to Alcatel Space.....		980
Reduction in loans.....	37	200
Sale of part of the business of MDTV.....	192	
Sale of Nortel Matra Cellular	412	
Divestments (including part of the avionics business for FF 200m)	225	
Sales of tangible assets.....	<u>307</u>	<u>470</u>
Total	<u><u>3,529</u></u>	<u><u>2,983</u></u>

(*) Figures for 1998 do not include Matra Hautes Technologies or Dassault Aviation.

AEROSPATIALE MATRA
INDEPENDENT AUDITORS' REPORT ON THE
CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 1999

We have audited the accompanying financial statements of Aerospatiale Matra, denominated in francs, for the year ended December 31, 1999.

These financial statements were approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aerospatiale Matra at December 31, 1999, 1998 and 1997, and the results of its operations and its cash flows.

As required by law, we have also reviewed the information provided in the Board of Directors' Management Report. Based on our review, no matters came to our attention which would lead us to believe that such information is not stated fairly.

March 8, 2000
Independent auditors

Ernst & Young Audit
Jean-Marc Montserrat

Mazars & Guérard
Bernard España Alain Vermont

AEROSPATIALE MATRA

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1997

The following unaudited pro forma consolidated balance sheet as of December 31, 1998 and the unaudited pro forma consolidated income statements for the year ended December 31, 1998 and December 31, 1997 (hereafter referred to as “the unaudited pro forma consolidated financial statements”) of the Aerospatiale-Matra group have been prepared to reflect the Dassault Aviation shares contributed by the French State, as well as the Matra Hautes Technologies (MHT) shares contributed by Lagardère SCA, as if these transactions had taken place on January 1, 1997 for the income statement and December 31, 1998 for the balance sheet.

The unaudited pro forma consolidated financial statements do not purport to represent what the Group’s financial position or results of operations would have been if such transactions had in fact occurred on such dates, or to project the Group’s financial position or results of operations as of any future date or for any future period. The unaudited pro forma consolidated financial statements should be read in conjunction with the audited financial statements of Aerospatiale, Dassault Aviation and MHT for the year ended December 31, 1998 and December 31, 1997.

ASM

UNAUDITED RECONCILIATION FROM HISTORICAL TO PRO FORMA FRENCH GAAP

1998

	<u>Note</u>	<u>Aerospatiale</u>	<u>MHT</u>	<u>Dassault Aviation</u>	<u>Elimination of inter-group transactions</u>	<u>Proforma adjustments</u>	<u>Reclassification</u>	<u>ASM Local GAAP</u>
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
		in millions of Euros						
INCOME STATEMENT								
G.II		8,365	2,575		(26)			10,914
G.IV.1		<u>(8,302)</u>	<u>(2,272)</u>		<u>26</u>		<u>1,842</u>	<u>(8,706)</u>
		<u>63</u>	<u>303</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,842</u>	<u>2,208</u>
G.IV.3							(565)	(565)
G.IV.4							(584)	(584)
G.IV.2							(842)	(842)
G.V		166					292	458
G.VI		<u>(3)</u>	<u>(27)</u>			<u>8</u>	<u>(166)</u>	<u>(188)</u>
		<u>226</u>	<u>276</u>			<u>8</u>	<u>(23)</u>	<u>487</u>
G.VIII.2		15	7	73				95
G.VIII.3		(14)					(13)	(27)
G.VIII.4		<u>5</u>	<u>(5)</u>				<u>12</u>	<u>12</u>
		<u>6</u>	<u>2</u>	<u>73</u>			<u>(1)</u>	<u>80</u>
		<u>232</u>	<u>278</u>	<u>73</u>		<u>8</u>	<u>(24)</u>	<u>567</u>
G.X.3		(79)	55				24	0
G.IX		23	(136)					(113)
G.X.1		<u>(18)</u>						<u>(18)</u>
		<u>158</u>	<u>197</u>	<u>73</u>		<u>8</u>	<u>0</u>	<u>436</u>

ASM

UNAUDITED RECONCILIATION FROM HISTORICAL TO PRO FORMA FRENCH GAAP

1998

	Note	Aerospatiale	MHT	Dassault Aviation	Elimination of inter-group transactions	Proforma adjustments	Reclassification	ASM Local GAAP
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
		in millions of Euros.						
ASSETS								
B.III	Intangible assets	89	634			(270)	(28)	425
B.IV	Property, plant & equipment.....	1,384	255			(96)	28	1,571
B.V	Investments & LT financial assets.....	713	60			381		1,154
	Total fixed assets.....	<u>2,186</u>	<u>949</u>	<u>0</u>	<u>0</u>	<u>15</u>	<u>0</u>	<u>3,150</u>
C.II.2	Raw materials and manufacturing supplies						264	264
C.II.3	Work in process	4,518	634		7	(1,127)	(1,572)	2,460
C.II.4	Finished goods, parts and products held for resale						1,309	1,309
C.II.5	Advance payments to suppliers.....	536	108		(32)	(20)		592
	Inventories (gross).....	5,054	742		(25)	(1,147)	1	4,624
C.II.6	Advance payments received on inventories						(3,965)	(3,965)
C.II	Inventories (net)	<u>5,054</u>	<u>742</u>	<u>0</u>	<u>(25)</u>	<u>(1,147)</u>	<u>(3,964)</u>	<u>660</u>
C.III.2	Trade receivables	2,627	649		(18)	(295)	(423)	2,540
C.III	Other receivable and other assets	1,147	173			(9)	344	1,655
C.IV	Securities.....	1,207				(500)	15	722
C.V.	Cash and cash equivalents	448	339			(47)		740
	Total non fixed assets	<u>10,483</u>	<u>1,903</u>	<u>0</u>	<u>(43)</u>	<u>(1,998)</u>	<u>(4,028)</u>	<u>6,316</u>
C.VI.2	Deferred tax assets.....						64	64
C.VI.1	Prepaid expenses	433	10			(44)		399
	Total Assets.....	<u>13,102</u>	<u>2,862</u>	<u>0</u>	<u>(43)</u>	<u>(2,027)</u>	<u>(3,964)</u>	<u>9,930</u>
LIABILITIES & STOCKHOLDERS' EQUITY								
D.I	Capital Stock.....	702				529		1,231
D.I	Additional paid-in capital.....							0
D.I	Retained earnings	254	598			(339)	(12)	501
D.I	Accumulated other comprehensive income						12	12
D.I	Stockholders' equity	<u>956</u>	<u>598</u>	<u>0</u>	<u>0</u>	<u>190</u>	<u>0</u>	<u>1,744</u>
D.II	Minority Interests.....	<u>174</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12</u>	<u>0</u>	<u>186</u>
E.II	Accruals for pensions.....	1,383	312			(198)	(1,109)	388
E.III	Accruals for taxes.....							0
E.IV	Other accruals.....	405				(405)	1,109	1,109
E	Total accrued liabilities	<u>1,788</u>	<u>312</u>	<u>0</u>	<u>0</u>	<u>(603)</u>	<u>0</u>	<u>1,497</u>
F.I	Financial Liabilities	1,648	352			(49)	32	1,983
F.I	Trade liabilities.....	7,589	1,453		(43)	(1,478)	(5,055)	2,466
F.I	Other liabilities	685	134			(99)	1,047	1,767
F.I	Total liabilities.....	<u>9,922</u>	<u>1,939</u>	<u>0</u>	<u>(43)</u>	<u>(1,626)</u>	<u>(3,976)</u>	<u>6,216</u>
F.II.1	Deferred tax liabilities						12	12
F.II.2	Deferred income.....	262	13			(2)		275
	Total Liabilities and stockholders' equity	<u>13,102</u>	<u>2,862</u>	<u>0</u>	<u>(43)</u>	<u>(2,027)</u>	<u>(3,964)</u>	<u>9,930</u>

ASM

UNAUDITED RECONCILIATION FROM HISTORICAL TO PRO FORMA FRENCH GAAP

1997

	Note	Aerospatiale	MHT	Dassault Aviation	Elimination of inter-group transactions	Proforma adjustments	Reclassification	ASM Local GAAP
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
	in millions of Euros							
INCOME STATEMENT								
G.II Revenues		8,582	3,160		(14)	(555)		11,173
G.IV.1 Cost of sales		<u>(8,417)</u>	<u>(2,821)</u>	—	<u>14</u>	<u>518</u>	<u>1,868</u>	<u>(8,838)</u>
Gross Margin		<u>165</u>	<u>339</u>	—	—	<u>(37)</u>	<u>1,868</u>	<u>2,335</u>
G.IV.3 Selling expenses.....							(493)	(493)
G.IV.4 General and Administrative expenses.....							(583)	(583)
G.IV.2 Research and development costs.....							(774)	(774)
G.V Other operating income							99	99
G.VI Other operating expenses		<u>(2)</u>	<u>(34)</u>	—	—	<u>(2)</u>	<u>(103)</u>	<u>(141)</u>
Result before financial income and income tax		<u>163</u>	<u>305</u>	—	—	<u>(39)</u>	<u>14</u>	<u>443</u>
G.VIII.2 Income from investments.....		27	11	92				130
G.VIII.3 Result on interest	(8)	22	(12)			(1)	34	13
G.VIII.4 Other financial result		<u>22</u>	<u>12</u>	—	—	<u>(1)</u>	<u>(51)</u>	<u>(18)</u>
Total financial result		<u>41</u>	<u>11</u>	<u>92</u>	—	<u>(2)</u>	<u>(17)</u>	<u>125</u>
Income (loss) before income taxes		<u>204</u>	<u>316</u>	<u>92</u>	—	<u>(41)</u>	<u>(3)</u>	<u>568</u>
G.X.3 Extraordinary result.....		11	(15)			(3)	7	0
G.IX Income taxes		3	(163)			13		(147)
G.X.1 Minority interest		<u>(1)</u>	<u>(28)</u>	—	—	<u>23</u>	<u>(4)</u>	<u>(10)</u>
Net Income		<u>217</u>	<u>110</u>	<u>92</u>	—	<u>(8)</u>	<u>0</u>	<u>411</u>

AEROSPATIALE MATRA

NOTES TO THE UNAUDITED DECEMBER 31, 1998 AND 1997 PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(1) Aerospatiale: The 1997 and 1998 consolidated financial statements of Aerospatiale are those that were presented to the Board of Directors respectively on March 4, 1998 and on March 9, 1999.

To take into account the revised presentation of the consolidated income statement and balance sheet, certain reclassifications were made and result in the following:

Consolidated income statements:

- “Operating income” disclosed in the 1997 and 1998 historical consolidated income statements corresponds to “Gross Margin”;
- “Gain on disposal of operations” disclosed in the 1998 historical consolidated income statement is recorded in “Other operating income”;
- “Exceptional items” disclosed in the 1997 and 1998 historical consolidated income statements correspond to “Extraordinary result”;
- “Financial income (loss)” disclosed in the 1997 and 1998 historical consolidated income statements is split between “Result on interest” and “Other financial result”;
- “Income of companies accounted for by the equity method” disclosed in the 1997 and 1998 historical consolidated income statements corresponds to “Income from investments”;
- “Amortization of goodwill on acquisitions” disclosed in the 1997 and 1998 historical consolidated income statements is included in “Other operating expenses”.

Consolidated balance sheet:

- “Companies accounted for by the equity method” and “Loans and investments” disclosed in the 1998 historical consolidated balance sheet are included in “Investments and long term financial assets”.
- “Reserves” and “Net income” disclosed in the 1998 historical consolidated balance sheet are included in “Retained earnings”.
- “Deferred share consideration” disclosed in the 1998 historical consolidated balance sheet is included in “Other accruals”.
- “Advances and payments received in account of contract” and “Operating payables” disclosed in the 1998 historical consolidated balance sheet are included in “Trade liabilities”.

(2) MHT:

- 1998 consolidated financial statements of MHT correspond to the accounts included in the condensed pro forma consolidated financial statements presented in the Offering Memorandum dated May 25, 1999 (pages F-1 to F-6).
- 1997 consolidated financial statements of MHT correspond to historical consolidated financial statements presented in the Offering Memorandum (pages F-40 to F-62).

To take into account the revised presentation of the consolidated income statement and balance sheet, certain reclassifications were made and result in the following:

Consolidated income statements:

- “Operating income” disclosed in the 1997 historical consolidated income statement and the 1998 pro forma consolidated income statement corresponds to “Gross Margin”;
- “Exceptional items” disclosed in the 1997 historical consolidated income statement and the 1998 pro forma consolidated income statement corresponds to “Extraordinary result”;
- “Financial income (loss)” disclosed in the 1997 historical consolidated income statement and the 1998 pro forma consolidated income statement is split between “Result on interest” and “Other financial result”;

- “Income of companies accounted for by the equity method” disclosed in the 1997 historical consolidated income statement and the 1998 pro forma consolidated income statement corresponds to “Income from investments”;
- “Amortization of goodwill” disclosed in the 1997 historical consolidated income statement and the 1998 pro forma consolidated income statement on acquisitions is included in “Other operating expenses”.

Consolidated balance sheet:

- “Companies accounted for by the equity method” and “Loans and investments” disclosed in the 1998 pro forma consolidated balance sheet are included in “Investments and long term financial assets”.
- “Reserves” and “Net income” disclosed in the 1998 pro forma consolidated balance sheet are included in “Retained earnings”.
- “Advances and payments received in account of contract” and “Operating payables” disclosed in the 1998 pro forma consolidated balance sheet are included in “Trade liabilities”.

(3) Dassault Aviation: Figures recorded in the 1998 and 1997 consolidated income statements correspond to the equity accounting of the 45.76% interest of Aerospatiale Matra based on the restated financial statements of Dassault Aviation of 1998 and 1997. This method of consolidation of the interest in Dassault Aviation has no effect in the 1998 consolidated balance sheet since Dassault Aviation’s balance sheet is already incorporated in Aerospatiale consolidated balance sheet. The entries corresponding to the deconsolidation of Dassault Aviation have been recorded in column (5).

(4) Eliminations of inter-group transactions: The balance and cash flows resulting from transactions between Aerospatiale and MHT have been eliminated.

(5) Pro forma adjustments: The following pro forma adjustments have been made:

- Deconsolidation of Dassault Aviation: This entry eliminates Dassault Aviation’s balance sheet from the consolidated financial statements of Aerospatiale where it had been incorporated using the method of proportionate consolidation. As the transfer of the French State’s shares in Dassault Aviation took place in December 1998, Aerospatiale’s financial statements do not include the income statement of this subgroup.
- Contribution of Dassault Aviation shares and capital increase: The French State’s contribution of 4,633,547 shares in Dassault Aviation for their net book value of Euros 405 million, will be paid through the allocation to the State of 9,267,094 new shares at a par value of Euros 15.24 (FF 100) each to be issued following a capital increase of Aerospatiale totaling Euros 141 million. This capital increase results in a share premium of Euros 264 million, to be recorded in Reserves.

Goodwill recorded in Dassault Aviation’s consolidated financial statements (Aerospatiale’s share being Euros 28 million after reversal of Euros 3 million depreciation charge recorded in 1998 and 1997) has been eliminated and replaced by goodwill calculated at the Aerospatiale level. This new goodwill was wholly netted against the above share premium reserve.

As the transfer of Dassault Aviation was deemed to be made after dividend distribution, the dividend relating to 1998 was deducted from Reserves, resulting in a reduction in Aerospatiale’s Cash and Cash equivalents of Euros 28 million share.

Total adjustments to Retained earnings, resulting in a reduction of Euros 197 million, are summarized as follows:

	<u>(in millions of Euros)</u>
Premium on new share issue.....	264
Elimination of goodwill	(28)
Dividend distribution	(28)
Elimination of shares transferred	<u>(405)</u>
Total	<u>(197)</u>

- Contribution of MHT shares and capital increase: The contribution by Lagardère SCA of 32,632,317 shares in MHT at their net book value of Euros 618 million, will be settled by the contribution to Lagardère SCA of 126,959,805 new shares at a par value of Euros 3.05 (FF 20) each, representing a capital

increase of Euros 387 million of Aerospatiale. This capital increase is accompanied by a share premium of Euros 231 million, recorded within Reserves.

Positive and negative goodwill, as well as intangible assets included in MHT's consolidated financial statements (respectively Euros 250 million, Euros 84 million, and Euros 420 million, after elimination of a Euros 16 million amortization charge in 1998, elimination of a Euros 19 million reversal of provisions against negative goodwill in 1998, and the elimination of Euros 29 million amortization charge relating to identifiable intangible assets in 1998) were reversed in order to re-calculate goodwill at the Aerospatiale level.

The effect of setting this goodwill against the share premium is Euros 211 million. The balance, Euros 375 million, will be amortized over 20 years, resulting in a Euros 19 million amortization charge in 1998.

Total adjustments to Reserves, which resulted in a reduction of Euros 598 million, are summarized as follows:

	<u>(in millions of Euros)</u>
Premium on new share issue.....	231
Elimination of goodwill	(211)
Elimination of shares transferred	<u>(618)</u>
Total	<u>(598)</u>

- In 1997, use of proportional integration of 50% of the accounts of Matra Marconi Space (MMS), fully consolidated in the 1997 historical consolidated accounts of MHT for the purposes of the consolidation of Lagardère SCA (see above note (2)).
 - In 1997 use of full integration of 50% of the accounts of Matra Grolier Network, proportionally consolidated in the 1997 historical consolidated accounts of MHT for the purposes of the consolidation of Lagardère SCA.
 - In 1997 consolidation of MDES (Matra Defence Equipment & Systems), not consolidated in the 1997 historical consolidated accounts of MHT for the purposes of the consolidation of Lagardère SCA.
- (6) **Reclassifications:** Entries made to comply with IAS income statement presentation requirements.
- (7) **ASM local GAAP:** Addition of columns 1 to 6.

Report of the Statutory Auditors of ASM
on the Unaudited Pro Forma Financial Information of Aerospatiale Matra (“ASM”)
included in the Unaudited Pro Forma Combining Financial Information of
European Aeronautic Defence and Space Company EADS N.V. (“EADS”)
and on
the Unaudited Reconciliation from Pro Forma and Historical French GAAP to IAS — ASM
(Free translation from the French signed original)

You have requested us to examine:

- the unaudited ASM income statements data for each of the twelve-month periods in the three-year period ended December 31, 1999, the unaudited ASM balance sheets data as of December 31, 1999 and 1998 and the unaudited ASM statement of cash flows data for the twelve-month period ended December 31, 1999 which are included under the heading “ASM” respectively in the EADS “Unaudited Pro Forma Combining Statements of Income for the Year Ended December 31, 1999”, the EADS “Unaudited Pro Forma Combining Statements of Income for the Year Ended December 31, 1998”, the EADS “Unaudited Pro Forma Combining Statements of Income for the Year Ended December 31, 1997”, in the EADS “Unaudited Pro Forma Combining Balance Sheet as at December 31, 1999”, the EADS “Unaudited Pro Forma Combining Balance Sheet as at December 31, 1998” and in the EADS “Unaudited Pro Forma Combining Statement of Cash Flows for the Year Ended December 31, 1999” all included in the EADS “Pro Forma Combining Financial Information” presented in the Offering Memorandum (“the ASM unaudited financial statements data”);
- the ASM unaudited reconciliations of historical net income and stockholders’ equity which are included under the heading “Unaudited Reconciliation from Pro Forma and Historical French GAAP to IAS — ASM” presented in the Offering Memorandum together with the “Summary of Differences Between ASM Accounting Principles, IAS and US GAAP” included in the Offering Memorandum (together “the ASM unaudited reconciliation data”).

The ASM unaudited financial statements data and ASM unaudited reconciliation data are together herein referred to as the ASM unaudited historical and pro forma financial data. Such ASM unaudited historical and pro forma financial data have been prepared in connection with the contemplated creation of EADS as a result of which ASM operations are to be contributed to EADS together with operations contributed by DASA and CASA.

These ASM unaudited historical and pro forma financial data are the responsibility of the Board of Directors of ASM and have been prepared based on the consolidated financial statements of ASM as of and for the twelve-month period ended December 31, 1999 and the consolidated financial statements of Aerospatiale as of and for the twelve-month periods ended December 31, 1998 and 1997 which were prepared under French GAAP and which we have audited in accordance with French professional standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Our reports with respect to the 1999 ASM consolidated financial statements is included in the Offering Memorandum.

The main assumptions selected by ASM management to prepare the 1998 and 1997 pro forma financial data were as follows:

- the contribution of Dassault Aviation shares contributed by the French State and the contribution of Matra Hautes Technologies (MHT) by Lagardère SCA have been reflected as if these contributions had taken place on January 1, 1997 for the 1997 and 1998 pro forma income statements;
- the contribution of Matra Hautes Technologies (MHT) by Lagardère SCA has been reflected as if this transaction had taken place on December 31, 1998 for the 1998 pro forma balance sheet;
- the investment in Dassault Aviation has been reflected under the equity method.

The accounting principles adjustments (“the GAAP difference adjustments”) and reclassifications applied by ASM management to prepare the 1999, 1998 and 1997 ASM unaudited historical and pro forma financial data have been selected to comply with IAS issued and effective for the twelve-month period ended December 31, 1999 except for the accounting of development costs for which either IAS 9 “Research and Development Costs” or IAS 38 “Intangible Assets” require capitalization as intangible assets when certain conditions are met.

On this basis, the nature and extent of the examination procedures carried out with respect to the ASM unaudited historical and pro forma financial data have been agreed upon with the management of EADS and ASM as reported

below together with our related findings in connection with the ASM unaudited financial statements data and the ASM unaudited reconciliation data.

- With respect to the pro forma assumptions, we have assessed:
 1. the procedures applied to select the pro forma assumptions and to prepare the pro forma consolidated financial data,
 2. whether such selected pro forma assumptions provide a reasonable basis for presenting the significant effects directly attributable to the pro forma transaction or event,
 3. whether the resulting pro forma adjustments give appropriate effect to those assumptions.
- With respect to the accounting principles adjustments and reclassifications applied to the historical financial statements data of ASM, Aerospatiale, MHT and Dassault Aviation, we have:
 1. compared the historical euros amounts of the ASM, Aerospatiale, MHT and Dassault Aviation balance sheet, income statement and cash flows statement items, as applicable, to the corresponding amounts in their respective audited financial statements taking into account the reclassifications applied to reflect revenues and expenses of ASM, Aerospatiale and MHT under a “cost of sales presentation”;
 2. compared the euros amounts of the ASM, Aerospatiale and MHT reclassifications applied to the historical financial statement items of ASM, Aerospatiale and MHT to the respective ASM, Aerospatiale and MHT accounting records to the extent such reclassification amounts could be so compared directly;
 3. compared the euros amounts of the ASM, Aerospatiale and MHT reclassifications applied to the historical financial statement items of ASM, Aerospatiale and MHT to the respective ASM, Aerospatiale and MHT respective amounts in accounting analyses prepared by ASM from ASM, Aerospatiale and MHT respective accounting records to the extent such reclassification amounts could not be compared directly to such accounting records;
 4. read the “Summary of Differences Between ASM Accounting Principles, IAS and US GAAP” (“the GAAP Differences Summary”) in conjunction with the description of accounting principles and policies of ASM, Aerospatiale and MHT as stated in their respective audited historical financial statements in 1999 and 1998, as applicable, and inquired of financial and accounting officials of ASM whether such GAAP Differences Summary reflects all significant differences between IAS issued and effective for a 1999 year-end closing and ASM accounting policies as they apply to the historical net income and stockholders’ equity of ASM, Aerospatiale and MHT, as applicable and for the periods presented;
 5. compared the euros amounts of the GAAP difference adjustments as identified in the “Summary of Differences Between ASM Accounting Principles, IAS and US GAAP”, to the extent they relate to IAS/ASM accounting principles differences only, to the corresponding amounts in ASM, Aerospatiale and MHT respective accounting records to the extent such amounts could be so compared directly and to amounts in accounting analyses prepared by ASM from ASM, Aerospatiale and MHT respective accounting records to the extent such GAAP difference adjustments could not be compared directly to such accounting records.
- With respect to the compilation of ASM, Aerospatiale, MHT and Dassault Aviation historical data prepared under French GAAP with the GAAP difference adjustments and reclassifications discussed above, we proved the arithmetic accuracy of the euros amounts included in such compilation to obtain the ASM unaudited historical and pro forma financial data.

The objective of pro forma consolidated financial statements is to show what the significant effects on the historical financial information might have been had a given transaction or event occurred at an earlier date than the date at which such transaction or event occurred or is reasonably expected to occur. However, pro forma consolidated financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had this given transaction or event occurred at an earlier date than the date at which such transaction or event occurred or is reasonably expected to occur.

Based on the above described agreed upon procedures, we have no specific findings to report on the ASM unaudited historical and pro forma financial data.

As a reminder, the foregoing agreed upon procedures do not constitute an audit conducted in accordance with generally accepted auditing standards in France and accordingly we do not express an opinion on the ASM unaudited historical and pro forma financial data.

The Statutory Auditors

Ernst & Young Audit
Jean-Marc Montserrat

Mazars & Guérard
Bernard España Alain Vermont

Paris La Défense, May 11, 2000

**CONSOLIDATED STATEMENTS OF INCOME OF
MATRA HAUTES TECHNOLOGIES**

	<u>1998</u>	<u>1997</u>
Operating revenues		
Net sales (note 1).....	3,200	3,160
Other operating revenues	<u>106</u>	<u>91</u>
Total operating revenues	<u>3,306</u>	<u>3,251</u>
Purchases and changes in inventories.....	(2,045)	(1,999)
Payroll costs	(796)	(819)
Depreciation and amortization expense	(77)	(48)
Taxes other than income taxes	<u>(45)</u>	<u>(46)</u>
Total operating expenses	<u>(2,963)</u>	<u>(2,912)</u>
Operating income (note 2)	<u>343</u>	<u>339</u>
Interest expense, net (note 3).....	(5)	—
Non-operating income (expense), net (note 4).....	57	(15)
Income taxes (note 5)	(153)	(163)
Amortization of goodwill (note 7).....	(29)	(34)
Net income from companies accounted for by the equity method (note 13)	<u>7</u>	<u>11</u>
Net income before minority interests	220	138
Minority interests (note 8)	<u>(22)</u>	<u>(28)</u>
NET INCOME — GROUP SHARE	<u>198</u>	<u>110</u>

**CONSOLIDATED BALANCE SHEETS OF
MATRA HAUTES TECHNOLOGIES**

	<u>1998</u>	<u>1997</u>
Assets		
Current assets		
Cash and marketable securities (note 9)	232	508
Trade receivables, net (note 10).....	837	935
Inventories, net (note 11).....	811	895
Other receivables, prepayments and deferred charges (note 12).....	<u>343</u>	<u>472</u>
Total current assets	<u>2,223</u>	<u>2,810</u>
Investments accounted for by the equity method (note 13).....	42	37
Other investments and non-current assets (note 14)	27	138
Property, plant and equipment, net (note 15)	306	345
Intangible assets, net (note 16).....	<u>667</u>	<u>598</u>
Fixed and other non-current assets	<u>1,042</u>	<u>1,118</u>
TOTAL ASSETS	<u><u>3,265</u></u>	<u><u>3,928</u></u>
Liabilities and shareholders' equity		
Liabilities		
Short-term borrowings and current portion of long-term debt (note 17)	234	242
Accounts payable	843	926
Advances received on contracts.....	765	1,346
Accrued expenses.....	360	395
Long-term borrowings (note 17).....	147	123
Reserves for risks and charges (note 19)	<u>360</u>	<u>390</u>
Total liabilities	<u>2,709</u>	<u>3,422</u>
Minority interests (note 8).....	<u>108</u>	<u>97</u>
Retained earnings.....	250	299
Net income for the year.....	<u>198</u>	<u>110</u>
Total shareholders' equity (note 21).....	<u>448</u>	<u>409</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>3,265</u></u>	<u><u>3,928</u></u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS OF
MATRA HAUTES TECHNOLOGIES**

	For the years ended December 31,	
	<u>1998</u>	<u>1997</u>
	(amounts in million)	
Net Income	198	110
Adjustments to reconcile net income to net cash flows from operating activities:		
Minority interests in net income	22	28
Depreciation and amortization expense	117	124
Gains on disposal of fixed assets and investments	(102)	(10)
Share of results of companies accounted for by the equity method	(7)	(11)
Dividends received from companies accounted for by the equity method	<u>3</u>	<u>5</u>
Cash flows from operations	<u>231</u>	<u>246</u>
Net change in working capital requirements	<u>(376)</u>	<u>(289)</u>
Net cash flows from operations	<u>(145)</u>	<u>(43)</u>
Acquisitions of fixed assets	(64)	(89)
Long-term financial investments	(71)	(117)
Proceeds from sales of fixed assets and investments	109	18
Decrease in other non-current assets	<u>3</u>	<u>2</u>
Net cash flows from investments	<u>(23)</u>	<u>(186)</u>
Net cash flows from operations and investments	<u>(168)</u>	<u>(229)</u>
Increase (Decrease) in borrowings	34	(64)
Common stock increase of parent company	0	98
Adjustment of minority interests from capital reorganization	0	3
Dividends paid to shareholders	(152)	0
Dividends paid to minority interests	<u>(10)</u>	<u>(16)</u>
Net cash flows from financing activities	<u>(128)</u>	<u>21</u>
Effect on cash of changes in group structure	33	2
Effect on cash of exchange rate fluctuations	<u>(2)</u>	<u>3</u>
Net increase (decrease) in cash	<u>(265)</u>	<u>(203)</u>
Net cash, beginning of year	<u>293</u>	<u>496</u>
Net cash, end of year	<u><u>28</u></u>	<u><u>293</u></u>

MATRA HAUTES TECHNOLOGIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the years 1997 to 1998 were initially prepared in French francs and have been converted into Euros using the official rate fixed on January 1, 1999 (i.e.: 1 = FF 6,55957).

A — PRINCIPLES OF CONSOLIDATION

1. General

The consolidated financial statements of Matra Hautes Technologies group have been prepared in accordance with accounting principles generally accepted in France. They also comply with standards prescribed by the International Accounting Standards Committee (IASC).

2. Basis of Consolidation

Included in the consolidated financial statements are all companies in which Matra Hautes Technologies owns directly or indirectly over 20% of the voting rights, with the exception of companies of insignificant size.

All subsidiaries in which Matra Hautes Technologies holds, directly or indirectly, more than 50% of the voting rights, or 40% if the Group exercises the management and no other stockholder holds a higher ownership interest, are fully consolidated.

Companies which are controlled jointly with outside shareholders are accounted for according to the proportional consolidation method. All items are recorded in the consolidated financial statements in proportion to the Group's percentage ownership.

Companies in which the Group directly or indirectly exercises considerable influence are consolidated under the equity method.

In 1998, MCN SAT Holding, MAI USA and Matra Communication USA, became 100% subsidiaries of Matra Hautes Technologies and were fully consolidated in its financial statements. In 1996 and 1997, these companies were not owned by MHT but were 100% directly or indirectly held by Lagardère SCA. In order to be consistent with the 1998 financial statements, the 1997 Matra Hautes Technologies's financial statements have been prepared as combined accounts which include the accounts of the three mentioned entities in addition to the consolidation of subsidiaries of Matra Hautes Technologies. The combined financial statements in 1997 comply with standards prescribed by the French Accounting Committee (CNC).

3. Changes in Consolidation Perimeter

Significant changes in companies consolidated were as follows:

In 1998

- Defense
 - Matra Défense Equipements & Systèmes is fully consolidated beginning January 1, 1998 following the acquisition of 100% of its common stock from Compagnie des Signaux on December 31, 1997.
 - LFK, a missiles subsidiary of Dasa group, has been accounted for by the equity method since April 1, 1998 following the acquisition by Matra BAe Dynamics of a 30% interest.
 - The holding company Sofimades was merged into its 100% subsidiary Matra Hautes Technologies. The merger contributed 4 million to Matra Hautes Technologies's consolidated equity at December 31, 1998 but had no effect on Matra Hautes Technologies's 1998 consolidated income statement.
- Telecommunications
 - Nortel's distribution network in France has been included in the results of Matra Nortel Communications effective January 1, 1998, following its acquisition by Matra Nortel Communications.
 - Fihem group (formerly MET) was deconsolidated as from January 1, 1998 following its sale to Ericsson during the first half of 1998. In 1996 and 1997, Fihem group was fully consolidated by Matra Nortel Communications.
 - Matra Nortel Communications sold its GSM terminals activities to Nokia at the end of June 1998.

MATRA HAUTES TECHNOLOGIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Closing Dates

Calendar closing dates apply to all subsidiaries.

5. Translation of Financial Statements of Foreign Subsidiaries

The financial statements of foreign subsidiaries are translated in accordance with accounting principles defined in Statement no. 21 of the International Accounting Standards Committee (IASC), i.e.:

- balance sheet items are translated using official year-end exchange rates except for items relating to shareholders' equity where historical rates are used;
- income statements are translated using average exchange rates for the year;
- translation gains or losses are included in shareholders' equity.

6. Inter-company Balances and Transactions

All such items are eliminated on consolidation. Provisions attached to inter-company shareholdings and related receivables are also eliminated and released to consolidated shareholders' equity.

7. Goodwill

Goodwill represent the difference between the purchase price of acquired business and the Group's share of their revalued net assets at the date of acquisition. The revaluation of assets is considered definitive at the end of the year following the first consolidation.

Goodwill are included in intangible assets and are amortized over a period of 20 years, except in those circumstances where a shorter period is considered more appropriate.

B — ACCOUNTING PRINCIPLES AND VALUATION METHODS

1. Marketable Securities

Marketable securities are presented at the lower of cost or market value.

2. Trades Receivables

Customer receivables are accounted for at cost less provisions for bad debts.

3. Inventories

Inventories are stated at purchase cost or at cost of production, according to methods appropriate to each division activity.

Work-in-progress on long-term contracts consist of accumulated costs not yet invoiced.

Allowances are made for all inventories where realizable value is lower than cost, or where inventory slow-movings indicate that write-downs are necessary.

Profits included in inventories acquired from other group companies are eliminated.

4. Translation of Transactions in Foreign Currency

Accounts receivable and payable denominated in foreign currencies are translated at year-end rates.

Unrealized exchange gains or losses are credited or charged to income.

Hedged transactions are translated at contracted rates.

5. Investments

Investments in non-consolidated subsidiaries are stated at cost, less provisions determined by reference to stock prices or other criteria such as strategic values.

MATRA HAUTES TECHNOLOGIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets as follows:

Buildings	6 ² / ₃ to 25 years
Specialized installations and infrastructure.....	6 ² / ₃ to 10 years
Machinery and industrial equipment.....	3 to 10 years
Other machinery, furniture, general installations and improvements.....	4 to 10 years

7. Intangible Assets

Intangible assets are recorded at historical cost and amortized over a period of 20 years.

Patents and licenses are amortized over their useful lives.

8. Research and Development Costs

Research and development costs are expensed when incurred, except where financed by advances received under specific contracts.

To the extent financed by conditional advances, research and development costs are capitalized, offset by a corresponding liability.

9. Long-term Contracts

Profits on long-term contracts are recognized on a percentage of completion basis by applying the estimated profit margin on each contract to revenue earned to date. Full provision is immediately accrued for on estimated losses on such contracts.

Revenue is generally recognized at the date of transfer of ownership determined by contract. However, if there is a significant gap between work-in-progress accumulated to date and the contractual date of transfer, revenue is recorded according to the percentage of completion method using predefined technical criteria.

Gains arising from the financing of long-term contracts are normally recognized only when realized. In the case of contracts with long production cycles, where such financing significantly exceeds production costs and the corresponding financial income can be clearly identified, such gains are recognized as Other operating revenues on a percentage of completion basis.

10. Income Taxes

Deferred taxes, arising from timing differences caused by the recognition of income or expenses in periods different from the period in which they are included in taxable income, are accounted for by the liability method.

When tax rates change, deferred tax balances are adjusted at the new rates, the adjustments being reflected in the year's tax expense.

Deferred taxes of French companies at December 31, 1996 were calculated using a rate of 36²/₃%. At December 31, 1997 and 1998, deferred taxes have been calculated using the rates enacted in France in 1997 and which will apply to the years in which deferred taxes are expected to reverse. These rates are as follows: 41²/₃% for 1997 and 1998, 40% in 1999, and 36²/₃% thereafter.

Deferred tax assets are only recorded by each tax entity to the extent that the entity can use such assets in the foreseeable future.

11. Retirement and Similar Benefits

For French companies, provisions for employee retirement and similar indemnities, other than those provided for by the French Social Security system, are established using actuarial formulas and considering mortality risks, turnover of personnel and other factors. These are set up in accordance with collective bargaining agreements.

Similar provisions are also established for foreign subsidiaries in accordance with local legislation and labor laws.

MATRA HAUTES TECHNOLOGIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

These calculations are updated each year. Variances arising from changes in actuarial present values of accumulated benefits are amortized over the average estimated remaining employment period.

Provisions are also made for commitments related to seniority bonuses and other specific advantages acquired by personnel employed by certain subsidiaries, and for pensions of employees of U.S. subsidiaries.

C — OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All amounts are stated in millions of euros (except for employees).

1. Net Sales

	<u>1998</u>	<u>1997</u>
France.....	1,159	1,273
Outside France.....	<u>2,041</u>	<u>1,887</u>
Net sales	<u><u>3,200</u></u>	<u><u>3,160</u></u>

Excluding changes in group structure (-0,4%), and exchange rates (0,5%), group sales increased by 1,2% between 1997 and 1998.

Geographical analysis of sales:

	<u>1998</u>	<u>1997</u>
France.....	1,159	1,273
European Union Countries.....	837	748
Rest of Europe.....	128	95
USA and Canada.....	142	179
Middle East.....	149	137
Asia-Pacific.....	767	643
Other (Africa, South America).....	<u>18</u>	<u>85</u>
Total	<u><u>3,200</u></u>	<u><u>3,160</u></u>

Analysis by division:

	<u>1998</u>	<u>1997</u>
Space.....	1,270	1,292
Defense.....	1,321	1,173
Telecommunications and CAD/CAM.....	<u>609</u>	<u>695</u>
Total	<u><u>3,200</u></u>	<u><u>3,160</u></u>

2. Operating Income

Operating income (loss) by division amounted to:

	<u>1998</u>	<u>1997</u>
Space.....	70	65
Defense.....	293	278
Telecommunications and CAD/CAM.....	<u>(20)</u>	<u>(4)</u>
Total	<u><u>343</u></u>	<u><u>339</u></u>

MATRA HAUTES TECHNOLOGIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. Interest Expense, Net

Interest expense is made up of:

	<u>1998</u>	<u>1997</u>
Interest and similar expense (net).....	(13)	(12)
Income from investments.....	4	8
Net exchange gains (losses).....	1	(5)
Other interest income (net).....	<u>3</u>	<u>9</u>
Total interest expense, net	<u>(5)</u>	<u>0</u>

4. Non-Operating Income (Expense), Net

	<u>1998</u>	<u>1997</u>
Net capital gains.....	102	10
Restructuring costs.....	(43)	(8)
Amortization and special write-downs of goodwill and other intangibles.....	0	(12)
Other non-operating expenses.....	<u>(2)</u>	<u>(5)</u>
Total non-operating income (expense), net	<u>57</u>	<u>(15)</u>

In 1998, non-operating items principally arose from:

- net capital gains on the disposals of Selsius by Intecom and of MET group (Telecommunications division);
- restructuring costs incurred mainly by the discontinuation of the GSM terminal business;

In 1997, non-operating items consisted mainly of:

- net capital gains on the sale of interests in Fimacom (Telecommunications);
- restructuring costs incurred mainly in the Telecommunications division;
- write-down of goodwill relating to GSM terminals activities.

5. Income Taxes

Income tax charged to profit and loss account is made up of:

	<u>1998</u>	<u>1997</u>
Taxes currently payable.....	(126)	(143)
Deferred taxes.....	<u>(27)</u>	<u>(20)</u>
Total income tax charge	<u>(153)</u>	<u>(163)</u>

In the balance sheet, deferred taxes were as follows:

	<u>1998</u>	<u>1997</u>
Deferred tax assets.....	51	76
Deferred tax liabilities.....	<u>(21)</u>	<u>(22)</u>
Total net deferred tax assets	<u>30</u>	<u>54</u>

6. Income Before Goodwill Amortization and Minority Interests

	<u>1998</u>	<u>1997</u>
Space.....	41	48
Defense.....	181	164
Telecommunications and CAD/CAM.....	<u>27</u>	<u>(40)</u>
Income before goodwill amortization and minority interests	<u>249</u>	<u>172</u>

MATRA HAUTES TECHNOLOGIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Amortization of Goodwill

	<u>1998</u>	<u>1997</u>
Matra Marconi Space	12	11
Matra Systèmes & Information.....	2	2
Matra Défense Equipements & Systèmes	4	—
Matra Holding GmbH	1	1
Matra Datavision	1	1
AMC.....	3	3
MET.....	—	2
Matra Defense	9	9
Matra BAe Dynamics.....	15	13
Amortization of negative goodwill (note 19).....	(19)	(10)
Other	<u>1</u>	<u>2</u>
Total amortization of goodwill.....	<u><u>29</u></u>	<u><u>34</u></u>

8. Minority Interests

Minority interests in equity and income are as follows:

	Minority interests in equity		Minority interests in income	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Matra Marconi Space.....	108	97	22	22
Matra Nortel Communications	—	—	—	11
Matra Datavision	—	—	—	(5)
Other	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u><u>108</u></u>	<u><u>97</u></u>	<u><u>22</u></u>	<u><u>28</u></u>

9. Cash and Marketable Securities

	December 31,	
	<u>1998</u>	<u>1997</u>
Cash.....	107	189
Marketable securities	<u>125</u>	<u>319</u>
Total.....	<u><u>232</u></u>	<u><u>508</u></u>

Unrealized gains on marketable securities at December 31 were:

	December 31,	
	<u>1998</u>	<u>1997</u>
At cost.....	125	319
Provision for depreciation.....	<u>—</u>	<u>—</u>
Net book value.....	125	319
Market value at December 31	<u>125</u>	<u>320</u>
Unrealized gains at December 31	<u><u>—</u></u>	<u><u>1</u></u>

These securities are stated at the lower of cost or market value. Gains on marketable securities are recognized as income when realized.

MATRA HAUTES TECHNOLOGIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. Trade Receivables

	December 31,	
	1998	1997
Trade receivables	848	946
Provision for doubtful accounts.....	(11)	(11)
Trade receivables, net	837	935

11. Inventories, Net

Inventories by division were:

	December 31,	
	1998	1997
Space	360	292
Defense.....	415	531
Telecommunications and CAD/CAM	87	111
Total, at cost	862	934
Less: provision	(51)	(39)
Total inventories, net	811	895

12. Other Receivables, Prepayments and Deferred Charges

	December 31,	
	1998	1997
Advances to suppliers.....	135	275
Prepayments and deferred charges	11	9
Other debtors	197	188
Total	343	472

13. Investments Accounted for by the Equity Method

These are as follows:

	Group share of equity		Group share of income (loss)	
	1998	1997	1998	1997
Matra Holding GmbH.....	8	8	2	1
MMS companies.....	4	5	—	(1)
Nortel Matra Cellular.....	28	22	5	10
Fimacom	—	—	—	1
Other.....	2	2	—	—
Total	42	37	7	11

14. Other Investments and Non-current Assets

	December 31,	
	1998	1997
Other investments, not consolidated	26	132
Other non-current assets.....	6	7
Gross value	32	139
Provision	(5)	(1)
Other investment and non-current assets, net	27	138

MATRA HAUTES TECHNOLOGIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Not consolidated investments were:

	December 31,	
	1998	1997
Gross value	26	132
Provision	(5)	(1)
Non consolidated investments, net	21	131

They could be analyzed as follows:

	December 31,	
	1998	1997
Matra Défense Equipements & Systèmes ^(*)	—	112
Ariane Participation.....	12	—
Office Général de l'Air	2	2
Sofresa	3	3
Istar.....	1	1
Orion	—	12
Gilat.....	—	—
Other	3	1
Total, net	21	131

(*) All share capital was acquired by the Defense division on December 31, 1997. The company has been fully consolidated since January 1, 1998. The investment includes 30 million cash available in the company upon completion of the acquisition process.

15. Property, Plant and Equipment

	December 31,	
	1998	1997
Land.....	38	46
Buildings	238	247
Machinery and equipment	351	387
Other.....	236	223
Construction in progress.....	11	9
Gross value	874	912
Accumulated depreciation	(568)	(567)
Property, plant and equipment, net	306	345

Fixed assets include assets purchased under leasing contracts which mainly relate to land and buildings, for 79 million in 1998 (1997 — 94 million and 1996 — 91 million).

The net book value of such assets was 35 million in 1998 (1997 — 42 million and 1996 — 47 million).

16. Intangible Assets, Net

	December 31,	
	1998	1997
Intangible assets	635	632
Goodwill	364	244
Gross value	999	876
Accumulated depreciation and amortization	(332)	(278)
Total intangible assets, net	667	598

MATRA HAUTES TECHNOLOGIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Intangible assets were as follows:

	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
Businesses	599	601
Research and development costs	4	7
Patents, licenses and trademarks	19	14
Other intangible assets	<u>13</u>	<u>10</u>
Gross value	635	632
Accumulated amortization and depreciation	<u>(234)</u>	<u>(197)</u>
Intangible assets, net	<u><u>401</u></u>	<u><u>435</u></u>

Capitalized research and development costs are those financed by conditional advances which are compensated by liabilities for equivalent amounts (see item 8 under Accounting principles and valuation methods).

Net goodwill by division were as follows:

	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
Space.....	133	133
Defense	450	454
Telecommunications.....	16	14
Accumulated amortization and depreciation	<u>(202)</u>	<u>(174)</u>
Businesses, net	<u><u>397</u></u>	<u><u>427</u></u>

Net goodwill arising on consolidation relates to the following subsidiaries:

	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
Matra Marconi Space.....	67	76
Matra Défense Equipements & Systemes	77	—
LFK	40	—
Matra Systèmes & Information.....	30	32
Matra holding GmbH	15	17
MAI	1	3
Matra Datavision	16	15
AMC.....	16	19
MET	—	—
Other	<u>4</u>	<u>1</u>
Total	<u><u>266</u></u>	<u><u>163</u></u>

17. Borrowings

Maturities at December 31, 1998 and 1997 were:

	<u>Less than</u> <u>one year</u>	<u>From one</u> <u>to 5 years</u>	<u>Over 5</u> <u>years</u>
Bank borrowings.....	16	26	0
Leasing contracts.....	2	10	32
Other	22	66	13
Short-term borrowings.....	<u>194</u>	<u>—</u>	<u>—</u>
Total borrowings at December 31, 1998	<u><u>234</u></u>	<u><u>102</u></u>	<u><u>45</u></u>

MATRA HAUTES TECHNOLOGIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	<u>Less than one year</u>	<u>From one to 5 years</u>	<u>Over 5 years</u>
Bank borrowings.....	20	18	3
Leasing contracts.....	2	10	34
Other	5	38	20
Short-term borrowings.....	<u>215</u>	<u>—</u>	<u>—</u>
Total borrowings at December 31, 1997.....	<u>242</u>	<u>66</u>	<u>57</u>

The above borrowings were due in the following currencies at December 31, 1998 and 1997:

	<u>Rate of exchange</u>	<u>Currencies Borrowed (millions)</u>	<u>Euros equivalents (millions)</u>
French francs.....	6.56	1,830	279
U.S. dollars.....	1.17	80	68
Italian lira.....	1,936.27	295	—
Belgian francs.....	40.34	25	1
Spanish pesetas	166.39	25	—
Deutsche marks	1.96	1	1
Pounds sterling.....	0.71	22	<u>32</u>
Total at December 31, 1998			<u>381</u>

	<u>Rate of Exchange</u>	<u>Currencies Borrowed (millions)</u>	<u>Euros equivalents (millions)</u>
French francs	6.56	1,985	303
U.S. dollars	1.10	66	60
Belgian francs.....	40.49	25	1
Deutsche marks.....	1.96	2	<u>1</u>
Total at December 31, 1997.....			<u>365</u>

In 1998 approximately 55% of these borrowings bore interest at variable rates while, in 1997, 73%.

18. Interest and Exchange Rate Risks

Interest rate risks

Financial instruments (principally swaps and future rate agreements) are used exclusively as hedges against interest rate risks on loans and other borrowings.

Long-term borrowings, together with related interest rate risks and risk management are outlined under the two categories described below:

- borrowings maintained at fixed rates and those at variable rates covered by fixed rates contracts over long periods (essentially real estate lease financing);
- other long-term borrowings maintained at variable rates or partly covered by fixed rates contracts or covered by contracts over short periods. Those liabilities maintained at variable rates can be matched with the amount of financial investments, which are essentially in French francs and for which interests received are principally based on short term interest rates.

Short-term borrowings include both borrowings towards companies related to Lagardère and relatively limited borrowings which are spread over many currencies and countries. Use of such borrowings fluctuates, and they are therefore maintained at variable rates.

Exchange rate risks

Almost all commercial contracts in foreign currency are individually hedged for exchange rate risks.

MATRA HAUTES TECHNOLOGIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

19. Reserves for Risks and Charges

	1998	1997
Loss at completion and market risks.....	55	61
Restructuring costs.....	41	25
Litigation and penalties.....	43	59
Warranties	53	122
Deferred tax liabilities	21	22
Retirement and similar benefits (Note 20)	43	39
Negative goodwill	65	40
Other	39	22
Total reserves for risks and charges	360	390

The reserve for litigation and penalties covers the Group share of risks identified at December 31, 1998.

Warranty risks reserves include specific provisions for guarantees and returns, as well as statistical estimates appropriate to each sector of activity.

Of the 137 million negative goodwill recorded on the creation of Matra BAe Dynamics, 87 million were allocated to provisions for identified risks in 1997. The balance of 50 million is being released to income over five years starting January 1, 1997. Because of the reduction in identified risks in 1998, an additional amount of 44 million was transferred to negative goodwill. As in 1997, negative goodwill continued to be released into income over five years, as a reduction of goodwill amortization charged in each period.

20. Reserves for Retirement and Similar Benefits

Total commitments for retirement and similar indemnities, calculated as described in item 11 under Accounting principles and valuation methods, as compared to amounts provided for in the balance sheet, were as follows:

	December 31,	
	1998	1997
Reserves for retirement and similar benefits accrued for on the balance sheet.....	43	39
Incremental cost arising from the recalculation of actuarial present values of accumulated benefits ⁽¹⁾	5	5
Total commitments	48	44

(1) These adjustments resulted mainly from the decrease in actualization rates in 1997 and 1998.

Total charges recorded in income statement amounted to 4,9 million in 1998 and 5,3 million in 1997.

Assumptions used by French companies for the determination of their commitments were as follows:

	December 31,	
	1998	1997
Actualization rate.....	5%	5.50%
Projected wage increases	3%	3%

21. Shareholders' Equity

	1998	1997
Equity at January 1.....	409	157
Net income	198	110
Dividends paid	(152)	—
Sofimades net contribution	4	—
Issue of common stock.....	—	135
Translation adjustment	(11)	7
Equity at December 31	448	409

MATRA HAUTES TECHNOLOGIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

22. Commitments and Contingent Liabilities

	December 31,	
	1998	1997
Guarantees under contracts		
Guarantees to reimburse advances and performance guarantees	401	970
Financial guarantees		
Guarantees on behalf of non-consolidated subsidiaries	6	7
Other	16	9

Financial instruments to hedge positions on currency and interest rates:

	December 31,	
	1998	1997
Forward purchases of currencies.....	298	284
Forward sales of currencies.....	551	405
Other exchange rate contracts.....	—	20
Interest rate swaps	78	100
Collars	19	19
Future rates agreements.....	—	—

23. Employees

	1998	1997
Space	4,664	5,041
Defense	4,399	4,036
Telecommunications and CAD/CAM.....	3,559	4,408
Total employees	12,622	13,485

Employees of companies proportionally consolidated are included using the proportionate rate.

FULLY CONSOLIDATED COMPANIES AT DECEMBER 31, 1998

<u>Company</u>	<u>Head Office</u>	<u>Registration code</u>	<u>% Holding</u>	<u>% Control</u>
SPACE				
M.C.N. SAT HOLDING	121, Avenue de Malakoff — 75216 PARIS CEDEX 16 (FRANCE)	382 838 506	100.00	100.00
M.C.N. SAT SERVICE	4, Rue de Presbourg — 75116 PARIS (FRANCE)	383 312 519	100.00	100.00
M.C.N. SAT U.S.	ARLINGTON VIRGINIA (USA)		100.00	100.00
MATRA GROLIER NETWORK.....	42, Rue Galliéni — 92601 ASNIERES CEDEX (FRANCE)	321 762 098	100.00	100.00
MATRANET.....	121, Avenue de Malakoff — 75216 PARIS CEDEX 16 (FRANCE)	403 083 074	100.00	100.00
S.C.I. MATRA TOULOUSE.....	47, Rue de Monceau — 75008 PARIS (FRANCE)	320 213 711	99.89	99.89
MMS				
MATRA MARCONI SPACE NV.....	LA HAYE (NETHERLANDS)		51.00	51.00
MATRA MARCONI SPACE FRANCE.....	4, Rue de Presbourg — 75116 PARIS (FRANCE)	342 360 054	51.00	100.00
MATRA ESPACE HOLDING BV	LA HAYE (NETHERLANDS)		51.00	88.25
MATRA ESPACE PARTICIPATION	121, Avenue de Malakoff — 75216 PARIS CEDEX 16 (FRANCE)	348 549 023	51.00	100.00
MATRA MARCONI SPACE UK (HOLDINGS) Ltd.....	STANMORE (UK)		51.00	90.00
MATRA MARCONI SPACE UK Ltd.....	STANMORE (UK)		51.00	99.00
MATRA SPACE SYSTEMS PARTICIPATIONS BV.....	LA HAYE (NETHERLANDS)		51.00	100.00
DEFENSE				
MATRA HAUTES TECHNOLOGIES	4, Rue de Presbourg — 75116 PARIS (FRANCE)	341 535 094	100.00	100.00
G2I.....	4, Avenue Morane Saulnier — 78142 VELIZY (FRANCE)	337 621 130	99.95	99.95
MATRA DEFENSE.....	4, Rue de Presbourg — 75116 PARIS (FRANCE)	342 360 005	100.00	100.00
MATRA DEFENSE EQUIPEMENTS & SYSTEMES	6, Avenue des Tropiques — Z.A. de Courtaboeuf — 91943 LES ULIS (FRANCE)	775 594 898	100.00	100.00
MATRA HOLDING GmbH.....	FRANKFURT AM MAIN (GERMANY)		100.00	100.00
MATRA SYSTEMES & INFORMATION	Parc d'Affaires — 27100 VAL DE RUEIL (FRANCE)	345 076 087	100.00	100.00
M.A.I.				
M.A.I.	FREDERICK (USA)		100.00	100.00
FAIRCHILD CONTROLS.....	FREDERICK (USA)		100.00	100.00
GERMANTOWN.....	FREDERICK (USA)		100.00	100.00
MANHATTAN BEACH.....	FREDERICK (USA)		100.00	100.00
TELECOMMUNICATIONS and CAD/CAM				
INTECOM Inc.....	ADDISON — TEXAS (USA)		100.00	100.00
MATRA COMMUNICATION USA Inc.	BURLIGAME — CALIFORNIA (USA)		100.00	100.00
M N H	121, Avenue de Malakoff — 75216 PARIS CEDEX 16 (FRANCE)	337 710 388	100.00	100.00
MATRA DATAVISION				
M.P. 13.....	121, Avenue de Malakoff — 75216 PARIS CEDEX 16 (FRANCE)	327 357 380	100.00	100.00
SFMRA (SOCIETE FINANCIERE MATRA RENAULT AUTOMATION).....	4, Rue de Presbourg — 75116 PARIS (FRANCE)	323 254 847	65.00	65.00
DATAVISION INTERNATIONAL.....	31, Avenue de la Baltique — 91961 LES ULIS (FRANCE)	328 920 863	100.00	100.00
MATRA DATAVISION	4, Rue de Presbourg — 75116 PARIS (FRANCE)	314 937 830	100.00	100.00
MATRA DATAVISION Ltd	COVENTRY (UK)		100.00	100.00
MATRA DATAVISION AG.....	DANGES (SWITZERLAND)		100.00	100.00
MATRA DATAVISION ASIA PACIFIC.....	WANCHAI (HONG KONG)		100.00	100.00
MATRA DATAVISION BEN	BRUXELLES (BELGIUM)		100.00	100.00
MATRA DATAVISION BV.....	LEIDEN (NETHERLANDS)		100.00	100.00
MATRA DATAVISION GmbH.....	MUNICH (GERMANY)		100.00	100.00
MATRA DATAVISION IBERIA.....	MADRID (SPAIN)		100.00	100.00
MATRA DATAVISION Inc.....	ANDOVER — MASSACHUSETTS (USA)		100.00	100.00
MATRA DATAVISION Kk.....	TOKYO (JAPAN)		100.00	100.00

<u>Company</u>	<u>Head Office</u>	<u>Registration code</u>	<u>% Holding</u>	<u>% Control</u>
MATRA DATAVISION SPA.....	TURIN (ITALY)		100.00	100.00
SOFRIMAT 5	31, Avenue de la Baltique — 91954 LES ULIS (FRANCE)	329 223 762	100.00	100.00
DEFENSE				
MATRA BAE DYNAMICS				
MATRA BAE DYNAMICS SAS	4, Rue de Presbourg — 75116 PARIS (FRANCE)	381 737 618	50.00	50.00
ALKAN	Rue du 8 Mai 1945 — 94460 VALENTON (FRANCE)	403 071 988	75.00	75.00
MATRA BAE DYNAMICS FRANCE	4, Rue de Presbourg — 75116 PARIS (FRANCE)	378 168 470	50.00	50.00
MATRA BAE DYNAMICS MANAGEMENT	4, Rue de Presbourg — 75116 PARIS (FRANCE)	410 273 551	50.00	50.00
MATRA BAE DYNAMICS UK	STEVENAGE HERTS (UK)		50.00	50.00
MATRA ELECTRONIQUE	4, Rue de Presbourg — 75116 PARIS (FRANCE)	925 420 077	50.00	50.00
TELECOMMUNICATIONS and CAD/CAM				
MATRA NORTEL COMMUNICATIONS				
MATRA NORTEL COMMUNICATIONS	50, Rue du Président Sadate — 29562 QUIMPER CEDEX 9 (FRANCE)	552 150 724	50.00	50.00
AEG MOBILE COMMUNICATION GmbH	ULM (GERMANY)		50.00	50.00
MATRA COMMUNICATION CELLULAR TERMINALS	ULM (GERMANY)		50.00	50.00
MATRA COMMUNICATION EGT NV	BRUXELLES (BELGIUM)		50.00	50.00
MATRA NORTEL COMMUNICATIONS CENTRE EST	320, Avenue Charles de Gaulle — 69676 BRON (FRANCE)	329 223 770	50.00	50.00
MATRA NORTEL COMMUNICATIONS DISTRIBUTION	50, Rue du Président Sadate — 29562 QUIMPER CEDEX 9 (FRANCE)	319 060 075	50.00	50.00
MATRA NORTEL COMMUNICATIONS NORD OUEST	Z.A. du Pré Catelan, Rue Delesalle — 59110 LA MADELEINE (FRANCE)	327 356 895	50.00	50.00
MATRA NORTEL COMMUNICATIONS PARIS ILE DE FRANCE	53, Bld de Stalingrad — 92247 MALAKOFF CEDEX (FRANCE)	329 477 301	50.00	50.00
MATRA NORTEL COMMUNICATIONS SUD	23, Avenue Champollion — 31084 TOULOUSE CEDEX (FRANCE)	700 801 707	50.00	50.00
MATRA RADIO SYSTEMS	MADRID (SPAIN)		50.00	50.00

COMPANIES CONSOLIDATED UNDER THE EQUITY METHOD AT DECEMBER 31, 1998

<u>Company</u>	<u>Head Office</u>	<u>Registration code</u>	<u>% Holding</u>	<u>% Control</u>
SPACE				
AUSPACE Ltd	AUSTRALIA		51.00	100.00
CRISA.....	TRES CANTOS (SPAIN)		25.50	50.00
NATIONAL REMOTE SENSING				
CENTRE (NRSC)	FARNBOROUGH HAMPSHIRE (UK)		22.95	45.00
SPACEBEL INFORMATIQUE.....	BELGIUM		20.40	40.00
SPOT IMAGE.....	4, Rue des Satellites — BP 4359 — 31030 TOULOUSE CEDEX 4 (FRANCE)	325 089 589	16.94	28.40
DEFENSE				
B.B.V	UBERLINGEN (GERMANY)		20.00	20.00
B.G.T.....	UBERLINGEN (GERMANY)		20.00	20.00
IOSAT	HALIFAX NOVA SCOTIA (CANADA)		33.33	33.33
LFK.....	MUNICH (GERMANY)		15.00	15.00
TELECOMMUNICATIONS and CAD/CAM				
CMC	6, rue J.P. Timbaud — 78067 MONTIGNY (FRANCE)	382 496 909	2.67	5.33
MATRA COMMUNICATION SPA	MILAN (ITALY)		50.00	50.00
MATRA DE COMUNICACIONES				
ESPANA	MADRID (SPAIN)		50.00	50.00
NORTEL MATRA CELLULAR.....	1, Place des Frères Montgolfier — BP 50 — 78280 GUYANCOURT (FRANCE)	389 516 741	17.00	17.00

**MATRA HAUTES TECHNOLOGIES REPORT OF INDEPENDENT AUDITORS
(TRANSLATED FROM FRENCH)**

BARBIER FRINAULT & AUTRES
ARTHUR ANDERSEN
Commissaire aux Comptes
Membre de la Compagnie de Versailles
41, rue Ybry
92576 Neuilly-sur-Seine Cedex

MAZARS & GUERARD
Commissaire aux Comptes
Membre de la Compagnie de Paris
125, rue de Montreuil
75011 Paris

To the Shareholders of
Matra Hautes Technologies,

In compliance with the assignment entrusted to us by your shareholders' annual general meeting, we hereby report to you, for the year ended December 31, 1998, on the audit of the accompanying consolidated financial statements of Matra Hautes Technologies reported in French Francs.

These consolidated financial statements have been prepared in the context of the proposed merger between Aerospatiale and Matra Hautes Technologies. The consolidation perimeter includes Matra Hautes Technologies and its direct and indirect subsidiaries, as described in Note A-2 of the "Principles of Consolidation" section of the notes to consolidated financial statements attached. The consolidated financial statements have been prepared by the President. Our role is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position and of its assets and liabilities as of December 31, 1998, and of the results of its operations for the year then ended.

Neuilly-sur-Seine and Paris, March 8, 1999,

The Statutory Auditors

BARBIER FRINAULT & AUTRES
Arthur Andersen
René Proglio

MAZARS & GUERARD
Jacques Kamienny

Dasa
Combined Statements of Income

	Note	Year ended December 31,		
		1999	1998	1997
				in millions of €
Revenues	21	7,455	7,115	6,303
Cost of sales	4	<u>(6,160)</u>	<u>(5,736)</u>	<u>(5,366)</u>
Gross margin		1,295	1,379	937
Selling, administrative and other expenses.....	4	(574)	(798)	(1,008)
Research and development		(410)	(317)	(276)
Other income.....	5	<u>150</u>	<u>200</u>	<u>355</u>
Income before financial income, income taxes and minority interests		461	464	8
Financial income (expense), net.....	6	<u>(89)</u>	<u>223</u>	<u>(321)</u>
Income (loss) before income taxes and minority interests		372	687	(313)
Income taxes	7	(405)	(240)	208
Minority interests		<u>(6)</u>	<u>(23)</u>	<u>(10)</u>
Net income (loss)		<u><u>(39)</u></u>	<u><u>424</u></u>	<u><u>(115)</u></u>

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

All 1998 and 1997 balances have been restated from Deutsche Marks into euros using the Official Fixed Conversion Rate.

Dasa
Combined Balance Sheets

<u>Assets</u>	<u>Note</u>	<u>At December 31,</u>	
		<u>1999</u>	<u>1998</u>
		in millions of €	
Intangible assets.....	8	71	69
Property, plant and equipment, net	8	1,171	1,150
Investments and long-term financial assets		<u>334</u>	<u>231</u>
Fixed assets		<u>1,576</u>	<u>1,450</u>
Inventories.....	9	533	423
Trade receivables.....	10	1,314	1,138
Other receivables and other assets	11	1,529	1,644
Securities		55	21
Cash and cash equivalents.....	12	<u>3,958</u>	<u>5,065</u>
Non-fixed assets		<u>7,389</u>	<u>8,291</u>
Deferred taxes	7	749	1,060
Prepaid expenses		<u>23</u>	<u>27</u>
Total assets (thereof short-term 1999: €6,405; 1998: €7,380)		<u>9,737</u>	<u>10,828</u>
Liabilities and net assets			
Net assets	13	<u>2,397</u>	<u>3,203</u>
Minority interests		191	119
Accrued liabilities	14	4,446	4,118
Financial liabilities.....	15	217	254
Trade liabilities	16	840	856
Other liabilities.....	17	<u>1,409</u>	<u>1,735</u>
Liabilities		<u>2,466</u>	<u>2,845</u>
Deferred taxes	7	224	531
Deferred income		<u>13</u>	<u>12</u>
Total liabilities (thereof short-term 1999: €3,590; 1998: €4,020)		<u>7,340</u>	<u>7,625</u>
Total liabilities and net assets		<u>9,737</u>	<u>10,828</u>

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

All 1998 balances have been restated from Deutsche Marks into euros using the Official Fixed Conversion Rate.

Dasa

Combined Statements of Cash Flows

	Year ended December 31,		
	1999	1998	1997
	in millions of €		
Net income (loss)	(39)	424	(115)
Income applicable to minority interests	6	23	10
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of fixed assets	255	265	263
Deferred taxes	489	248	(241)
Change in financial instruments.....	5	(5)	240
Net gains on disposals of fixed assets/businesses	(33)	(156)	(24)
Change in accrued liabilities.....	373	(172)	(125)
Change in other operating assets and liabilities:			
— inventories, net	(110)	177	31
— trade receivables.....	(187)	(362)	107
— trade liabilities	(15)	283	80
— other assets and liabilities	<u>(201)</u>	<u>(225)</u>	<u>(147)</u>
Cash provided by operating activities	<u>543</u>	<u>500</u>	<u>79</u>
Purchase of fixed assets:			
— Purchases of property, plant and equipment.....	(283)	(291)	(221)
— Purchases of other fixed assets	(72)	(45)	(27)
Proceeds from disposals of fixed assets.....	41	76	62
Payments for acquisitions of businesses.....	(71)	(137)	(53)
Proceeds from disposals of businesses.....	19	82	73
Acquisitions/disposals of securities and of similar financial assets.....	86	(36)	(14)
Increase in loans receivable.....	(102)	—	—
Change in cash from changes in consolidation.....	<u>(4)</u>	<u>60</u>	<u>—</u>
Cash used for investing activities	<u>(386)</u>	<u>(291)</u>	<u>(180)</u>
Change in financial liabilities	(37)	(2)	(8)
Dividends paid (including profit/loss transfer agreement).....	(1,288)	(174)	(243)
Capital increase	69	—	—
Other.....	<u>(8)</u>	<u>(38)</u>	<u>12</u>
Cash used for financing activities	<u>(1,264)</u>	<u>(214)</u>	<u>(239)</u>
Effect of foreign exchange rate changes on cash and cash equivalents.....	<u>—</u>	<u>(3)</u>	<u>—</u>
Net decrease in cash and cash equivalents.....	(1,107)	(5)	(340)
Cash and cash equivalents			
At beginning of period	<u>5,065</u>	<u>5,073</u>	<u>5,413</u>
At end of period	<u>3,958</u>	<u>5,065</u>	<u>5,073</u>

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

All 1998 and 1997 balances have been restated from Deutsche Marks into euros using the Official Fixed Conversion Rate.

Dasa
Combined Statements of Changes in Net Assets

	<u>in millions of €</u>
Balance at January 1, 1997	3,009
Dividends (including profit transfer) ⁽¹⁾	(96)
Net loss.....	(115)
Other comprehensive income	<u>5</u>
Total comprehensive loss	<u>(110)</u>
Change in minority interests within DaimlerChrysler	<u>11</u>
Balance at December 31, 1997	2,814
Dividends (including profit transfer) ⁽¹⁾	53
Net income	424
Other comprehensive loss.....	<u>(4)</u>
Total comprehensive income	<u>420</u>
Change in minority interests within DaimlerChrysler	<u>(84)</u>
Balance at December 31, 1998	3,203
Capital increase	69
Dividends (including profit transfer) ⁽¹⁾	(796)
Net loss.....	(39)
Other comprehensive income	<u>7</u>
Total comprehensive loss	<u>(32)</u>
Change in minority interests within DaimlerChrysler	<u>(47)</u>
Balance at December 31, 1999	<u><u>2,397</u></u>

(1) Includes tax benefit/burden from DaimlerChrysler AG.

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

All 1998 and 1997 balances have been restated from Deutsche Marks into euros using the Official Fixed Conversion Rate.

Dasa

Combined Fixed Assets Schedule

	Acquisition or Manufacturing Costs						Depreciation/Amortization						Book Value ⁽¹⁾			
	Balance at January 1, 1999	Currency change	Acquisitions/disposals of businesses	Additions	Reclassifications	Disposals	Balance at December 31, 1999	Balance at January 1, 1999	Currency change	Acquisitions/disposals of businesses	Additions	Reclassifications	Disposals	Balance at December 31, 1999	Balance at December 31, 1998	
	in millions of €															
Intangible assets																
Other intangible assets	63	—	—	18	3	12	72	43	—	—	15	1	12	47	25	20
Goodwill.....	193	—	2	—	—	4	191	144	—	—	5	—	4	145	46	49
	<u>256</u>	<u>—</u>	<u>2</u>	<u>18</u>	<u>3</u>	<u>16</u>	<u>263</u>	<u>187</u>	<u>—</u>	<u>—</u>	<u>20</u>	<u>1</u>	<u>16</u>	<u>192</u>	<u>71</u>	<u>69</u>
Property, plant and equipment																
Land, leasehold improvements and buildings including buildings on land owned by others.....	2,112	—	(22)	27	21	21	2,117	1,402	—	(10)	56	(1)	15	1,432	685	710
Technical equipment and machinery	883	1	(8)	43	24	21	922	775	—	(5)	53	—	22	801	121	108
Other equipment, factory and office equipment	1,312	—	(24)	106	34	110	1,318	1,093	—	(23)	125	—	106	1,089	229	219
Advance payments relating to plant and equipment and construction in progress.....	113	—	—	107	(82)	2	136	—	—	—	—	—	—	—	136	113
	<u>4,420</u>	<u>1</u>	<u>(54)</u>	<u>283</u>	<u>(3)</u>	<u>154</u>	<u>4,493</u>	<u>3,270</u>	<u>—</u>	<u>(38)</u>	<u>234</u>	<u>(1)</u>	<u>143</u>	<u>3,322</u>	<u>1,171</u>	<u>1,150</u>
Investments and long-term financial assets																
Investments in affiliated companies	92	—	1	—	(3)	1	89	78	—	8	—	(3)	—	83	6	14
Loans to affiliated companies	7	—	(2)	—	—	1	4	3	—	—	—	—	—	3	1	4
Investments in associated companies.....	82	5	—	47	10	2	142	—	—	—	1	—	—	1	141	82
Investments in related companies.....	125	—	—	31	(7)	3	146	39	—	—	—	3	2	40	106	86
Loans to associated and related companies	37	—	—	—	—	—	37	37	—	—	—	—	—	37	—	—
Other loans	50	—	—	53	—	18	85	5	—	—	—	—	—	5	80	45
	<u>393</u>	<u>5</u>	<u>(1)</u>	<u>131</u>	<u>—</u>	<u>25</u>	<u>503</u>	<u>162</u>	<u>—</u>	<u>8</u>	<u>1</u>	<u>—</u>	<u>2</u>	<u>169</u>	<u>334</u>	<u>231</u>
	<u>5,069</u>	<u>6</u>	<u>(53)</u>	<u>432</u>	<u>—</u>	<u>195</u>	<u>5,259</u>	<u>3,619</u>	<u>—</u>	<u>(30)</u>	<u>255</u>	<u>—</u>	<u>161</u>	<u>3,683</u>	<u>1,576</u>	<u>1,450</u>

(1) Currency translation changes with period end rates.

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

All 1998 balances have been restated from Deutsche Marks into euros using the Official Fixed Conversion Rate.

Dasa
Notes to Combined Financial Statements
(in millions of €)

BASIS OF PRESENTATION

1. Summary of significant accounting policies

General — The accompanying combined financial statements reflect the aerospace and defense activities of DaimlerChrysler AG (“DaimlerChrysler” or “DCAG”), conducted through its majority owned subsidiary, DaimlerChrysler Aerospace AG, which are intended to be contributed to the European Aeronautic Defence and Space Company N.V. (“EADS”) in the transactions described below. For purposes of these combined financial statements such DaimlerChrysler Aerospace AG aerospace and defense activities to be contributed into EADS are hereinafter referred to as Dasa or the Group.

In October 1999, DaimlerChrysler, Lagardère SCA (“Lagardère”) and Société de Gestion de Participations Aéronautiques — Sogepa (“Sogepa”), an agency of the French government, entered into an agreement and announced the formation of EADS for purposes of the combination of the aeronautic, space and defence activities of Aerospatiale Matra S.A. (“ASM”) and Dasa. In December 1999, DaimlerChrysler, Lagardère, Sogepa and Sociedad Estatal de Participaciones Industriales (“SEPI”), holding approximately 99.3% of Construcciones Aeronauticas S.A. (“CASA”), entered into an agreement on the combination of EADS and CASA. Accordingly, to implement the formation of EADS, the aeronautic, space and defence activities of Dasa, ASM and CASA will each be contributed to EADS in return for shares representing approximately 37.3%, 56.5% and 6.2%, respectively, of EADS. As part of the implementation of the agreements, Dasa cash and cash equivalents of €1,749 shall be retained by DaimlerChrysler.

The combined financial statements of Dasa have been prepared assuming the Group was organized for all periods presented as a separate legal entity and in accordance with United States generally accepted accounting principles (“U.S. GAAP”), except that the Group has accounted for certain joint ventures in accordance with the proportionate method of consolidation (see Note 2). All amounts herein are shown in millions of euro (“€”).

Combination — The combined financial statements include all of the material subsidiaries under the legal or managerial control of Dasa. Significant investments in which the Group has a 20% to 50% ownership (“associated companies”) are generally accounted for using the equity method. For investments in material joint ventures, the Group uses the proportionate method of consolidation (see Note 2). Other investments are accounted for at cost.

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

The effects of intercompany transactions have been eliminated. Certain prior year balances have been reclassified to conform with the Group’s current year presentation.

Foreign Currencies — The assets and liabilities of foreign subsidiaries where the functional currency is other than the euro are generally translated using period-end exchange rates while the statements of income are translated using average exchange rates during the period. Differences arising from the translation of assets and liabilities in comparison with the translation of the previous periods are included as a separate component of net assets.

Prior to December 31, 1998, the Group prepared and reported its combined financial statements in Deutsche Marks (“DM”). With the introduction of the euro on January 1, 1999, the Group has presented the accompanying combined financial statements in euro. Accordingly, the Deutsche Mark combined financial statements for prior periods have been restated into euro using the Official Fixed Conversion Rate of €1 = DM 1.95583. The Group’s 1998 and 1997 restated euro financial statements depict the same trends as would have been presented if it had continued to present its combined financial statements in Deutsche Marks. The Group’s combined financial statements will, however, not be comparable to the euro financial statements of other companies that previously reported their financial information in a currency other than Deutsche Marks.

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

Dasa

Notes to Combined Financial Statements — (Continued) (in millions of €)

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

Product-Related Expenses — Expenses for advertising and sales promotion and other sales-related expenses are charged to expense as incurred. Provisions for warranties are made at the time the related sale is recorded. Research and development funded by the Group is expensed as incurred.

Income Taxes — The Group has entered into a profit and loss sharing agreement with DCAG under which the Group is required to remit its pretax profits to DCAG and DCAG is required to reimburse the Group for its pretax losses. Both the pretax profits and losses subject to the profit and loss sharing agreement are calculated according to the German commercial code (Handelsbilanz). The profits or losses of the Group are, accordingly, included in the combined income tax return of DaimlerChrysler. For purposes of these combined financial statements, the Group's income tax provisions have been prepared as if it was a separate taxable entity.

Deferred income taxes are recorded in the combined financial statements of the Group in accordance with Statement of Financial Accounting Standards ("SFAS") 109, "Accounting for Income Taxes." Deferred tax assets and liabilities reflect lower or higher future tax liabilities that result for certain assets and liabilities from temporary valuation differences between their carrying amounts in the U.S. GAAP balance sheet and the tax balance sheet. In addition, deferred taxes are recorded for losses carried forward from companies which are not included in the filing of the combined tax return of DCAG. For losses carried forward in connection with the group of companies that file a combined tax return with DCAG, deferred tax assets are recorded by DCAG. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Because deferred taxes assets anticipate potential future tax benefits, they are recorded in the combined financial statements of the Group only when the likelihood that the tax benefits will be realized is more than 50%. A valuation allowance is recorded to reduce deferred tax assets to amounts which will more likely than not be realized.

Intangible Assets — Purchased intangible assets, other than goodwill, are valued at acquisition cost and are generally amortized over their respective useful lives (3 to 10 years) on a straight line basis. Goodwill derived from acquisitions and consolidation is capitalized and amortized over 5 to 20 years. The Group periodically assesses the recoverability of its goodwill based upon projected future cash flows.

Property, Plant and Equipment — Property, plant and equipment is valued at acquisition or manufacturing costs less accumulated depreciation. Depreciation expense is recognized using the declining balance method until the straight-line method yields larger expenses. The costs of internally produced equipment and facilities include all direct costs and allocable manufacturing overhead. The following useful lives are assumed: buildings — 10 to 50 years; site improvements — 8 to 20 years; technical equipment and machinery — 3 to 20 years; and other equipment, factory and office equipment — 2 to 10 years.

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

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

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

Inventories — Inventories are valued at the lower of acquisition or manufacturing cost or market price. Manufacturing costs comprise direct material and labor and applicable manufacturing overheads, including depreciation charges.

Dasa

Notes to Combined Financial Statements — (Continued) (in millions of €)

Securities — Securities are accounted for at fair values, if readily determinable. Unrealized gains and losses on available-for-sale securities are included in accumulated other comprehensive income, net of applicable deferred income taxes. All other securities are recorded at cost.

Cash and cash equivalents — Cash consists of cash on hand, cash in bank, checks, and fixed deposits having a maturity of three months or less. The Group considers amounts due from DCAG's cash management group as cash equivalents.

Financial Instruments — The Group uses derivative financial instruments only for hedging purposes. Financial instruments, including derivatives (currency futures and currency options), which are not designated as hedges of specific assets, liabilities, or firm commitments are marked to market and any resulting unrealized gains or losses are recognized in income. If there is a direct connection between a derivative financial instrument and an underlying transaction and a derivative is so designated, a valuation unit is formed. Once allocated, gains and losses from these valuation units, which are used to manage currency risks of identifiable assets, liabilities, or firm commitments, do not affect income until the underlying transaction is realized (see Note 20d).

Accrued Liabilities — The valuation of pension liabilities is based upon the projected unit credit method in accordance with SFAS 87, "Employers' Accounting for Pensions." An accrued liability for taxes and other contingencies is recorded when an obligation to a third party has been incurred, the payment is probable and the amount can be reasonably estimated. The effects of accrued liabilities relating to personnel and social costs are valued at their net present value where appropriate.

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.

New Accounting Pronouncements — In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." This Standard requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains and losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. With the issuance of SFAS 137, "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133, an Amendment of FASB Statement No. 133," this Standard is effective for fiscal years beginning after June 15, 2000. Dasa plans to adopt SFAS 133 effective January 1, 2000. The new Standard will permit the Group to apply hedge accounting for certain foreign currency derivative contracts on qualifying forecasted transactions. Under the Group's current accounting policies such contracts are marked to market with unrealized gains and losses impacting current earnings. Accordingly, application of the new Standard in accounting for such foreign currency derivative contracts may result in lower current period earnings volatility relating to the Group's foreign currency risk management in periods of significant changes in exchange rates.

2. Scope of combination

Scope of Combination — In 1999 the Group comprises 18 foreign and domestic subsidiaries (1998: 16) and 13 joint venture companies (1998: 13); the latter are accounted for on a pro rata basis. During 1999, 6 subsidiaries were included in the combined financial statements for the first time and a total of 4 subsidiaries left the group. Significant effects of changes in the group on the combined balance sheets and the combined statements of income are explained further in the notes to the combined financial statements. A total of 62 subsidiaries ("affiliated companies") are not included as their combined influence on the financial position, results of operations, and cash flows of the Group is not material (1998: 61). The effect of such non-included subsidiaries for all years presented to combined assets, revenues and net income of the Group was less than 2%. In addition, 1 (1998: 2) companies administering pension funds whose assets are subject to restrictions have not been included in the combined financial statements. The combined financial statements include 54 associated companies (1998: 48). At December 31, 1999, 5 (1998: 4) associated companies are accounted for in the combined financial statements using the equity method of accounting. The remaining associated companies are accounted for at cost and are recorded under investments in related companies as these companies are not material to the respective presentation of the financial position, results of operations or cash flows of the Group.

Dasa

Notes to Combined Financial Statements — (Continued) (in millions of €)

Investments in Joint Ventures — The most material joint venture is the Eurocopter Group consisting of Eurocopter Holding S.A. and its 6 (1998: 6) subsidiaries, in which the Group holds a 40-percent interest. The second partner of this joint venture operating in the helicopter business is Aerospatiale Matra. In the business unit Defense and Civil Systems Dasa holds a 50-percent interest in Nortel Dasa Network Systems, a joint venture with Northern Telecom which is engaged in the development and production of telecommunication networks. Furthermore the Group has 50% investments in TDA-Armements S.A.S and in Bayern Chemie GmbH, both in cooperation with Thomson-CSF. On January 1, 1998 the Group sold its stake in Zeiss-Eltro Optronik GmbH, which formerly was a joint venture with Carl Zeiss, Oberkochen.

The Group reports its 40% interest of the assets and liabilities, revenues and expenses and cash flows in Eurocopter and its 50% interest in 3 other joint ventures by using the proportionate method of consolidation. The Group believes that such method of financial statement presentation, which is permitted by the regulations of the Seventh Directive of the European Community, better illustrates its combined financial position, results of operations and cash flows to the reader of the Group's combined financial statements.

Under U.S. GAAP, the Group's investments in the joint ventures were required to be accounted for using the equity method of accounting. The differences in accounting treatment between the proportionate and equity methods would not have affected reported net assets or net income of the Group. Under the equity method of accounting, the Group's net investments in joint ventures would be included within investments in the balance sheet and its share of the net income or loss of the joint ventures together with the amortization of goodwill would be reported as a net amount in financial income, net in the Group's statement of income. Additionally, Eurocopter and the other joint ventures would impact the Group's reported cash flows only to the extent the Group received cash dividends.

Summarized combined financial information of the joint ventures follows. The amounts represent those used in the Group accounts.

Balance sheet information

	At December 31,	
	1999	1998
Fixed assets	138	138
Non-fixed assets	895	787
Total assets	<u>1,033</u>	<u>925</u>
Net assets	231	206
Minority interests	59	55
Accrued liabilities	319	254
Liabilities	<u>424</u>	<u>410</u>
Total liabilities and net assets	<u>1,033</u>	<u>925</u>

Statement of income information

	Year ended December 31,		
	1999	1998	1997
Revenues	1,033	921	861
Income before financial income and income taxes	45	36	—
Net income (loss)	25	31	(3)

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

Cash flow information

	<u>Year ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Cash flows from:			
Operating activities	117	(14)	161
Investing activities.....	(15)	(9)	(40)
Financing activities.....	<u>(14)</u>	<u>2</u>	<u>(22)</u>
Change in cash.....	<u>88</u>	<u>(21)</u>	<u>99</u>
Cash at beginning of period.....	<u>63</u>	<u>84</u>	<u>36</u>
Cash at end of period	<u><u>151</u></u>	<u><u>63</u></u>	<u><u>135</u></u>

Equity Investments — The Group conducts portions of its business through investments in companies accounted for using the equity method. The principal equity method investment consists of its 37.9% interest in Airbus Industrie G.I.E. (“Airbus”), a commercial aircraft manufacturing consortium. The Group, through its subsidiary DaimlerChrysler Aerospace Airbus GmbH, provides contract manufacturing services for Airbus, including fuselage manufacture for all types of Airbus aircraft and final assembly of the A319 and A321 series of aircraft. The Group’s revenues from goods and services provided to Airbus amounted to €3,136, €2,686 and €2,216 for the years ended December 31, 1999, 1998 and 1997, respectively. Accounts receivable in the Group’s combined balance sheet includes €770 and €290 at December 31, 1999 and 1998, respectively, of amounts due from Airbus.

Summarized financial information for Airbus follows:

	<u>At December 31,</u>	
	<u>1999</u>	<u>1998</u>
Fixed assets	5,785	4,304
Non-fixed assets	5,000	4,645
Other assets	113	22
Accrued liabilities	(1,481)	(1,236)
Other liabilities	<u>(10,306)</u>	<u>(8,488)</u>
Net assets (liabilities).....	<u><u>(889)</u></u>	<u><u>(753)</u></u>

	<u>Year ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Revenues.....	14,610	11,314	9,768
Net income (loss).....	(265)	(170)	(56)

3. Acquisitions and Dispositions

In 1998, the Group acquired the German defense electronics activities of Siemens AG (SI Sicherungstechnik GmbH & CoKG). The acquisition was accounted for under the purchase method of accounting and as such all assets acquired and liabilities assumed were recorded at fair value. The excess of the purchase price over the fair value of net assets acquired of €48 was capitalized as goodwill and is being amortized over 15 years, the expected period of benefit.

In 1998, the Group sold 30% of its interests in LFK-Lenkflugkörpersysteme GmbH to Matra BAe Dynamics, resulting in a pretax gain of €74. The Group also disposed of 100% of its interests in CMS Inc. to Primex Technologies Inc., resulting in a pretax gain of €58.

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

NOTES TO THE COMBINED STATEMENTS OF INCOME

4. Functional costs and other expenses

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

	Year ended December 31,		
	1999	1998	1997
Cost of raw materials, supplies and resale products	2,157	2,147	1,494
Cost of purchased services	1,208	1,214	1,421
	3,365	3,361	2,915

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

	Year ended December 31,		
	1999	1998	1997
Selling expenses	272	292	253
Administration expenses	271	239	239
Other expenses	31	267	516
	574	798	1,008

Cost of sales and functional costs include other taxes of €13 (1998: €7; 1997: €33).

Other expenses primarily include charges not allocated to cost of sales, selling or administrative expenses. In 1998, expenses amounting to €229 (1997: €369) related to settlement payments for commitments to the Federal Republic of Germany were recorded (see Note 19).

Personnel expenses included in the statement of income are comprised of:

	Year ended December 31,		
	1999	1998	1997
Wages and salaries	1,998	1,925	1,765
Social levies	348	298	301
Net periodic pension cost (see Note 14a)	202	202	188
	2,548	2,425	2,254

Number of employees of combined subsidiaries (annual average):

	Year ended December 31,		
	1999	1998	1997
Hourly employees	10,086	9,619	9,037
Salaried employees	22,640	22,735	22,293
Trainees/apprentices	1,607	1,558	1,510
	34,333	33,912	32,840

In 1999, 12,019 persons (1998: 11,698 persons; 1997: 12,080 persons) were employed in joint venture companies.

5. Other income

Other income includes gains on sales of property, plant and equipment (€16, €24 and €24 in 1999, 1998 and 1997, respectively), gains on sales of companies (€30 and €132 in 1999 and 1998, respectively), rental income (€36, €31 and €10 in 1999, 1998 and 1997, respectively), and reductions in certain accruals (€13 and €23 in 1999 and 1997, respectively).

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

6. Financial income, net

	<u>Year ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Income (loss) from investments thereof from affiliated companies €4 (1998: €3; 1997: €(15)).....	16	12	(6)
Gains, net from disposals of investments and shares in affiliated and associated companies.....	20	22	20
Write-down of investments and shares in affiliated companies.....	—	(10)	(9)
Income (loss) from companies included at equity.....	<u>(65)</u>	<u>(91)</u>	<u>62</u>
Income (loss) from investments, net	<u>(29)</u>	<u>(67)</u>	<u>67</u>
Other interest and similar income thereof from affiliated companies €145 (1998: €228; 1997: €196).....	172	253	222
Interest and similar expenses.....	<u>(66)</u>	<u>(70)</u>	<u>(65)</u>
Interest income, net	<u>106</u>	<u>183</u>	<u>157</u>
Realized and unrealized gains (losses) on financial instruments.....	(169)	116	(562)
Other, net.....	<u>3</u>	<u>(9)</u>	<u>17</u>
Other financial income (loss), net	<u>(166)</u>	<u>107</u>	<u>(545)</u>
	<u>(89)</u>	<u>223</u>	<u>(321)</u>

7. Income taxes

Income (loss) before income taxes and minority interests consists of the following:

	<u>Year ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Germany.....	338	658	(317)
Foreign.....	<u>34</u>	<u>29</u>	<u>4</u>
	<u>372</u>	<u>687</u>	<u>(313)</u>

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

	<u>Year ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Current taxes			
Germany.....	(98)	(11)	29
Foreign.....	14	3	4
Deferred taxes			
Germany.....	487	252	(241)
Foreign.....	<u>2</u>	<u>(4)</u>	<u>—</u>
	<u>405</u>	<u>240</u>	<u>(208)</u>

In 1999, the tax laws in Germany were changed, including a reduction in the retained corporate income tax rate from 45% to 40% and a broadening of the tax base. The effects of the changes in the German tax laws were recognized as a charge of €233 in the combined statement of income in 1999.

German corporate tax law applies a different tax rate for undistributed and distributed earnings. Retained corporate income is initially subject to a federal corporate tax rate of 40% (1998 and 1997: 45%) plus a solidarity surcharge of 5.5% (1998: 5.5%; 1997: 7.5%) on the federal corporate taxes payable. Including the impact of the surcharge, the effective federal corporate tax rate amounts to 42.2% (1998: 47.475%; 1997: 48.375%).

Upon distribution of retained earnings to stockholders, the corporate income tax rate on the earnings is adjusted to 30%, plus a solidarity surcharge of 5.5% (1998: 5.5%; 1997: 7.5%) on the distribution corporate tax of 30%, for a total of 31.65% (1998: 31.65%; 1997: 32.25%), by means of a refund on taxes previously paid. Upon distribution of

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

retained earnings in the form of a dividend, stockholders who are taxpayers in Germany are entitled to a tax credit to the amount of federal income taxes previously paid by the corporation.

For German companies, the deferred taxes for 1999 and 1998 were calculated using effective corporate income tax rates of 42.2% and 47.475%, respectively, plus the after federal tax benefit rate for trade tax of 9.3% and 8.525%, respectively. The effect of the tax rate reductions on year-end 1999 and 1997 deferred tax balances are reflected in the reconciliations of 1999 and 1997 presented below.

A reconciliation of income taxes determined using the German corporate tax rate of 42.2% plus the after federal tax benefit rate for trade taxes of 9.3% for a combined statutory rate of 51.5% in 1999 (1998: 56%; 1997: 57%) is as follows:

	Year ended December 31,		
	1999	1998	1997
Expected (provision)/benefit for income taxes.....	(192)	(385)	179
Effect of changes in German tax laws.....	(233)	—	(7)
Tax refund (additional-payment) for prior years.....	(15)	21	(1)
Equity-evaluation.....	(2)	3	3
Permanent differences on consolidation items.....	10	44	6
Changes in valuation allowances on deferred taxes.....	5	26	55
Permanent differences on investments.....	10	31	(18)
Other.....	<u>12</u>	<u>20</u>	<u>(9)</u>
Reported tax (provision)/benefit.....	<u>(405)</u>	<u>(240)</u>	<u>208</u>

Under the DCAG tax allocation policy, the Group's share of the income tax liabilities of DCAG are calculated on a separate return basis, without taking into consideration the dividend distribution credit on distributed earnings. Had the Group received the benefit of a dividend distribution credit, its reported income taxes for the years ended December 31, 1999, 1998 and 1997 would have been reduced by dividend distribution credits of €129, €26 and €36, respectively, and dividends paid reported in the combined statement of changes in net assets would have been increased by a corresponding amount. Therefore, net assets in total would have been unchanged.

Deferred income tax assets and liabilities are summarized as follows:

	December 31,	
	1999	1998
Intangible assets.....	25	33
Property, plant and equipment.....	111	124
Investments and long-term financial assets.....	33	17
Inventories.....	469	543
Net operating loss and tax credit carryforwards.....	140	284
Retirement plans.....	546	575
Other accrued liabilities.....	219	173
Liabilities.....	110	126
Deferred income.....	<u>1</u>	<u>3</u>
	1,654	1,878
Valuation allowances.....	<u>(50)</u>	<u>(82)</u>
Deferred tax assets.....	<u>1,604</u>	<u>1,796</u>
Receivables.....	1,070	1,267
Other.....	<u>9</u>	<u>—</u>
Deferred tax liabilities.....	<u>1,079</u>	<u>1,267</u>
Deferred tax assets, net.....	<u>525</u>	<u>529</u>

At December 31, 1999, the Group had corporate tax net operating losses ("NOLs") and credit carryforwards amounting to €316 (1998: €600) and German trade tax NOLs amounting to €91 (1998: €56). The corporate tax

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

NOLs and credit carryforwards mainly relate to losses of foreign and domestic non-Organschaft companies and are partly limited in their use to the Group. The amount of the Group's deferred tax valuation allowances is based upon management's belief that it is more likely than not that not all of the deferred tax assets will be realized. In future periods, depending upon the Group's financial results, management's estimate of the amount of the deferred tax assets considered realizable may change, and hence the valuation allowances may increase or decrease.

Net deferred income tax assets and liabilities in the combined balance sheets are as follows:

	<u>December 31, 1999</u>		<u>December 31, 1998</u>	
	<u>Total</u>	<u>thereof non-current</u>	<u>Total</u>	<u>thereof non-current</u>
Deferred tax assets.....	749	724	1,060	1,005
Deferred tax liabilities.....	(224)	(1)	(531)	(6)
Deferred tax assets, net.....	<u>525</u>	<u>723</u>	<u>529</u>	<u>999</u>

NOTES TO THE COMBINED BALANCE SHEETS

8. Intangible assets and property, plant and equipment, net

Information with respect to changes in the Group's intangible assets and property, plant and equipment is presented in the Combined Fixed Assets Schedule included herein. Property, plant and equipment include buildings, technical equipment and other equipment capitalized under capital lease agreements of €46 (1998: €49; 1997: €52). Depreciation expense on assets under capital lease arrangements was €3 (1998: €3; 1997: €1).

9. Inventories

	<u>At December 31,</u>	
	<u>1999</u>	<u>1998</u>
Raw materials and manufacturing supplies.....	206	245
Work in progress thereof relating to long-term contracts and programs in process €43 (1998: €143).....	1,497	1,337
Finished goods, parts and products held for resale.....	132	114
Advance payments to suppliers.....	<u>281</u>	<u>189</u>
	2,116	1,885
Less: Advance payments received thereof relating to long-term contracts and programs in process €189 (1998: €291).....	<u>(1,583)</u>	<u>(1,462)</u>
	<u>533</u>	<u>423</u>

10. Trade receivables

	<u>At December 31,</u>	
	<u>1999</u>	<u>1998</u>
Receivables from sales of goods and services	1,011	953
Long-term contracts and programs, unbilled, net of advance payments received.....	<u>377</u>	<u>266</u>
	1,388	1,219
Allowance for doubtful accounts.....	<u>(74)</u>	<u>(81)</u>
	<u>1,314</u>	<u>1,138</u>

As of December 31, 1999, €217 of the trade receivables mature after more than one year (1998: €63).

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

11. Other receivables and other assets

	At December 31,	
	1999	1998
Receivables from affiliated companies.....	138	23
Receivables from related companies ⁽¹⁾	291	241
Other assets	1,133	1,402
	1,562	1,666
Allowance for doubtful accounts.....	(33)	(22)
	1,529	1,644

(1) Related companies include entities which have a significant ownership in the Group or entities in which the Group holds a significant investment.

As of December 31, 1999, €811 of the other receivables and other assets mature after more than one year (1998: €930). Other assets at December 31, 1999, include €869 (1998: €962) of deferred amounts related to settlement payments to the Federal Republic of Germany by DaimlerChrysler Aerospace Airbus GmbH.

12. Cash flow information

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

	Year ended December 31,		
	1999	1998	1997
Interest paid	47	8	26
Income taxes paid	113	65	24

Cash and cash equivalents include €3,349 (1998: €4,491) of liquid funds invested in DaimlerChrysler's cash management group.

13. Net assets

At each balance sheet date presented, net assets represent the excess of the assets over liabilities of Dasa, as discussed in Note 1 to these combined financial statements. Accumulated other comprehensive income principally includes differences arising from foreign currency translation and amounted to €4, €4 and €8 at December 31, 1997, 1998 and 1999, respectively. Dividends reported in the statement of changes in net assets include the tax benefit or expense from DCAG.

14. Accrued liabilities

Accrued liabilities are comprised of the following:

	At December 31,			
	1999		1998	
	Total	thereof >1 year	Total	thereof >1 year
Retirement plans (see Note 14 a) and similar obligations.....	2,556	2,471	2,441	2,379
Income and other taxes.....	58	39	39	2
Other accrued liabilities (see Note 14 b).....	1,832	849	1,638	882
	4,446	3,359	4,118	3,263

a) Retirement plans

The Group provides pension benefits to substantially all of its hourly and salaried employees. Plan benefits are principally based upon years of service. 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).

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

The following provides information with respect to the Group's pension plans, located principally in Germany. Since 1998 the Group has used the rates of the new Heubeck mortality tables for the valuation of the German pension liabilities.

	<u>At December 31,</u>	
	<u>1999</u>	<u>1998</u>
Change in projected benefit obligations:		
Projected benefit obligations at beginning of year.....	3,069	2,679
Service cost.....	69	71
Interest cost.....	178	173
Plan amendments.....	—	1
Actuarial (gains) losses.....	(45)	178
Acquisitions and other.....	(36)	60
Benefits paid.....	<u>(102)</u>	<u>(93)</u>
Projected benefit obligations at end of year.....	<u>3,133</u>	<u>3,069</u>
Change in plan assets:		
Fair value of plan assets at beginning of year.....	603	567
Actual return on plan assets.....	26	69
Benefits paid.....	<u>(35)</u>	<u>(33)</u>
Fair value of plan assets at end of year.....	<u>594</u>	<u>603</u>

At December 31, 1999, plan assets were invested in diversified portfolios that consisted primarily of debt and equity securities. Assets and income accruing from all pension trust and relief funds are solely used to pay pension benefits.

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

	<u>At December 31,</u>	
	<u>1999</u>	<u>1998</u>
Funded status ⁽¹⁾	2,539	2,466
Unrecognized actuarial net losses.....	<u>(1)</u>	<u>(25)</u>
Net amount recognized.....	<u>2,538</u>	<u>2,441</u>

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

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

<u>Weighted-average assumptions as of December 31:</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	%	%	%
Discount rate.....	6.0	6.0	6.5
Expected return on plan assets.....	7.7	7.7	7.7
Rate of compensation increase.....	2.75	3.0	3.0

The components of the net periodic pension cost were as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Service cost.....	69	71	67
Interest cost.....	178	173	163
Expected return on plan assets.....	<u>(45)</u>	<u>(42)</u>	<u>(42)</u>
Net periodic pension cost.....	<u>202</u>	<u>202</u>	<u>188</u>

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

b) Other accrued liabilities

Other accrued liabilities consisted of the following:

	At December 31,	
	1999	1998
Accrued warranty costs and price risks.....	265	264
Accrued losses on uncompleted contracts.....	214	185
Restructuring.....	108	91
Accrued personnel and social costs.....	162	148
Other.....	1,083	950
	1,832	1,638

Accruals for restructuring comprise certain employee termination benefits and costs which are directly associated with reductions in capacities.

The changes in these provisions are summarized as follows:

	Termination benefits	Exit costs	Total liabilities
Balance at January 1, 1997	232	42	274
Utilizations and transfers.....	(122)	(6)	(128)
Reductions.....	(19)	(5)	(24)
Additions.....	15	—	15
Balance at December 31, 1997	106	31	137
Utilizations and transfers.....	(47)	(9)	(56)
Reductions.....	(3)	(10)	(13)
Additions.....	20	3	23
Balance at December 31, 1998	76	15	91
Utilizations and transfers.....	(21)	(2)	(23)
Reductions.....	(5)	—	(5)
Additions.....	41	4	45
Balance at December 31, 1999	91	17	108

In connection with the Group's restructuring, provisions were recorded for termination benefits of €41 (1998: €20; 1997: €15). In connection with these restructuring efforts, the Group effected workforce reductions of 249 employees (1998: 820; 1997: 970) and paid termination benefits of €40 (1998: €109; 1997: €124), of which €40 (1998: €107; 1997: €124) were charged against previously established accrued liabilities and other liabilities. At December 31, 1999 the Group had liabilities for estimated future terminations for approximately 627 employees.

15. Financial liabilities

	At December 31,	
	1999	1998
Liabilities to financial institutions.....	24	28
Liabilities to affiliated companies.....	18	38
Liabilities from capital lease and residual value guarantees.....	5	3
Short-term financial liabilities (due within one year).....	47	69
Liabilities to financial institutions thereof due in more than five years: €14 (1998: €15).....	14	25
Loans, other financial liabilities.....	108	108
Liabilities from capital lease and residual value guarantees thereof due in more than five years: €24 (1998: €38).....	48	52
Long-term financial liabilities.....	170	185
	217	254

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

Weighted average interest rates for liabilities to financial institutions are 6.2% (short-term) and 5.6% (long-term), respectively, at December 31, 1999. Liabilities to financial institutions mature through 2007.

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>there-after</u>
Financial liabilities.....	47	5	113	4	10	38

16. Trade liabilities

	<u>At December 31, 1999</u>			<u>At December 31, 1998</u>		
	<u>Total</u>	<u>thereof >1 year</u>	<u>thereof >5 years</u>	<u>Total</u>	<u>thereof >1 year</u>	<u>thereof >5 years</u>
	Accounts payable.....	672	—	—	701	7
Accrued liabilities from long-term contracts and programs.....	<u>168</u>	<u>15</u>	<u>—</u>	<u>155</u>	<u>—</u>	<u>—</u>
	<u>840</u>	<u>15</u>	<u>—</u>	<u>856</u>	<u>7</u>	<u>—</u>

17. Other liabilities

	<u>At December 31, 1999</u>			<u>At December 31, 1998</u>		
	<u>Total</u>	<u>thereof >1 year</u>	<u>thereof >5 years</u>	<u>Total</u>	<u>thereof >1 year</u>	<u>thereof >5 years</u>
	Liabilities to affiliated companies	31	—	—	15	—
Liabilities to related companies.....	1,014	4	—	513	20	11
Other liabilities	<u>364</u>	<u>5</u>	<u>—</u>	<u>1,207</u>	<u>5</u>	<u>—</u>
	<u>1,409</u>	<u>9</u>	<u>—</u>	<u>1,735</u>	<u>25</u>	<u>11</u>

Liabilities to related companies are primarily obligations of DaimlerChrysler Aerospace Airbus GmbH to Airbus Industrie G.I.E., Toulouse.

Other liabilities at December 31, 1998, include the repayment-obligations of €895 to the Federal Republic of Germany, which arise from the redemption of general agreement commitments by DaimlerChrysler Aerospace Airbus GmbH. As of December 31, 1999 other liabilities include tax liabilities of €93 (1998: €47) and social benefits of €67 (1998: €95).

OTHER NOTES

18. Litigation and claims

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

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

19. Commitments and contingencies

Commitments and contingencies are presented at their contractual values and include the following:

	At	
	December 31,	
	1999	1998
Guarantees.....	64	44
Contractual guarantees.....	91	157
Pledges of indebtedness of others.....	13	7
	<u>168</u>	<u>208</u>

Contingent liabilities principally represent guarantees of indebtedness of affiliated companies not included and third parties, contractual guarantees and commitments by Group companies as to contractual performance by joint venture companies.

In connection with the development of aircraft, DaimlerChrysler Aerospace Airbus GmbH (“DA”) is committed to Airbus Industrie to incur future development costs. At December 31, 1999, the remaining commitment not recorded in the financial statements aggregated €342.

Airbus Industrie G.I.E. (“Airbus consortium”) has given a performance guarantee to Agence Executive, the French government agency overseeing Airbus. This performance guarantee has been assumed by DA to the extent of its 37.9% participation in the Airbus consortium.

At December 31, 1999, in connection with DA’s participation in the Airbus consortium, DA was contingently liable related to the Airbus consortium’s irrevocable financing commitments in respect of aircraft on order, including options, for delivery in the future. In addition, DA was also contingently liable related to credit guarantees and participations in financing receivables of the Airbus consortium under certain customer finance programs. When entering into such customer financing commitments, the Airbus consortium has generally established a secured position in the aircraft being financed. The Airbus consortium and DA believe that the estimated fair value of the aircraft securing such commitments would substantially offset any potential losses from the commitments. Based on experience, the probability of material losses from such customer financing commitments is considered remote.

DA’s obligations under the foregoing financing commitments of the Airbus consortium are joint and several with its other partners in the consortium. In the event that Airbus, despite the underlying collateral, should be unable to honor its obligations, each consortium partner would be jointly and severally liable to third parties without limitation. Between the consortium partners, the liability is limited to each partner’s proportionate share in Airbus.

In 1989, the Group acquired Messerschmitt-Bölkow-Blohm GmbH (“MBB”) and thereby indirectly acquired DA (then known as Deutsche Airbus GmbH) which was and continues to be the German participant in Airbus Industrie. In connection with the acquisition the Federal Republic of Germany undertook responsibility for certain financial obligations of MBB and DA and agreed to provide certain ongoing limited financial assistance for development programs. Such undertakings, advances and assistance were to be repaid by DA on a contingent basis equal to 40% of the prior year’s pretax profit, as defined in the agreement with the Government, beginning in 2001, and royalty payments based on sales of aircraft.

During 1998 and 1997, DA settled the foregoing contingent obligations with the Federal Republic of Germany for payments of €895 and €716, respectively. The 1998 settlement, which resulted in the complete discharge of all remaining obligations to the German Federal Government, primarily related to the Airbus A300/310 and A330/340 series aircraft. The 1997 settlement related to the A320 aircraft and its derivative. Of the foregoing settlement payments, €229 and €369 were expensed in 1998 and 1997, respectively. The remainder of the settlement payments were capitalized and are being amortized over those aircraft to be delivered in the future to which the settlements related.

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

Total rentals under operating leases, charged as an expense in the statement of income, amounted to €58 (1998: €65; 1997: €57). Future lease payments under rental and lease agreements which have initial or remaining terms in excess of one year at December 31, 1999 are as follows:

	<u>Operating leases</u>
2000	58
2001	43
2002	39
2003	21
2004	21
thereafter	43

20. Information about financial instruments

As a consequence of the global nature of the Group's businesses, its operations and its reported financial results and cash flows are exposed to the risks associated with fluctuations in foreign currency exchange rates principally between the euro and the U.S. dollar. The Group's businesses are exposed to transaction risk whenever revenues are denominated in a currency other than the currency in which the costs relating to those revenues are incurred. The Group's revenues resulting from the sale of aircraft and other aerospace related products are principally denominated in U.S. dollars due to the requirements of the marketplace, but a substantial part of the manufacturing costs are denominated in euro.

a) Use of financial instruments

In the course of day-to-day financial management, the Group uses financial instruments, such as forward exchange contracts and to a much lesser extent currency options. Because of changes in currency exchange rates, the Group may be exposed to risks. The Group uses derivative financial instruments to reduce such risks. Without the use of these instruments the Group's market risks would be higher.

Based on regulations issued by regulatory authorities for financial institutions, DCAG has established guidelines for risk assessment procedures and controls for the use of financial instruments, including a clear segregation of duties with regard to operating financial activities and settlement, accounting and controlling.

b) Notional amounts and credit risk

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

The notional amounts of derivative financial instruments are as follows:

	<u>At December 31,</u>	
	<u>1999</u>	<u>1998</u>
Currency contracts.....	4,814	4,824

Currency contracts include foreign exchange forward and option contracts which are mainly utilized to hedge existing assets, liabilities and firm commitments (principally U.S. dollars). The objective of the Group's hedging transactions is to reduce the market risk of its foreign denominated future cash flows to exchange rate fluctuations. The Group has entered into currency contracts for a period of one to five years.

The Group may be exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Counterparties to the Group's financial instruments represent, in general, international financial institutions. The Group does not have a significant exposure to any individual counterparty, based on the rating of the counterparties performed by established rating agencies. The Group believes the overall credit risk related to utilized derivatives is insignificant.

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

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, the fair values presented herein may not be indicative of the amounts that the Group could realize in a current market exchange.

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

	At December 31, 1999		At December 31, 1998	
	Carrying amount	Fair value	Carrying amount	Fair value
Balance Sheet Financial Instruments:				
Assets:				
Financial assets.....	80	80	49	49
Securities	55	55	21	21
Cash and cash equivalents.....	3,958	3,958	5,065	5,065
Liabilities:				
Financial liabilities.....	217	217	254	254
Derivative Financial Instruments:				
Assets:				
Currency contracts	—	37	5	148
Liabilities:				
Currency contracts	147	464	117	171

Financial Liabilities — The carrying amount of the Group's balance-sheet financial liabilities is not materially different from fair value.

Currency Contracts — The fair value of forward foreign exchange contracts is based on EZB-reference exchange rates that consider forward premiums or discounts. Currency options are valued on the basis of quoted market prices or on estimates based on option pricing models.

d) Accounting for and reporting of derivative financial instruments

Financial instruments, including derivatives, purchased to offset the Group's exposure to identifiable and committed transactions with currency risks are accounted for together with the underlying business transactions ("hedge accounting"). Gains and losses on forward contracts and options hedging firm foreign currency commitments are deferred off-balance sheet and are recognized as a component of the related transactions, when recorded (the "deferral method").

In the event of an early termination of a currency exchange agreement designated as a hedge, the gain or loss continues to be deferred and is included in the settlement of the underlying transaction.

All other financial instruments, including derivatives, purchased to offset the Group's net exposure to currency risks, but which are not designated as hedges of specific assets, liabilities or firm commitments are marked to market and any resulting unrealized gains and losses are recognized currently in financial income, net.

Derivatives purchased by the Group under macro-hedging techniques, as well as those purchased to offset the Group's exposure to anticipated cash flows, do not generally meet the requirements for applying hedge accounting and are, accordingly marked to market at each reporting period with unrealized gains and losses recognized in financial income, net. At such time that the Group meets the requirements for hedge accounting and designates the derivative financial instrument as a hedge of a committed transaction, subsequent unrealized gains and losses would be deferred and recognized along with the effects of the underlying transaction.

Notes to Combined Financial Statements — (Continued)
(in millions of €)

21. Segment Reporting

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

- *Commercial Aircraft* — The Commercial Aircraft business includes the activities of DaimlerChrysler Aerospace Airbus GmbH and its subsidiaries, focused on the development, production and final assembly of passenger jets in the 100-plus seat category and also of civil and military transport aircraft.
- *Aeronautics* — This business unit includes the development, production and support of military aircraft and helicopters for military and civil applications. The product line comprises fighters, military transport and mission aircraft, single-engine light helicopters as well as twin-engine light- and medium-weight helicopters.
- *Space Infrastructure* — Space Infrastructure concentrates on the development and production of orbital systems, including programs involving space stations and the development of new technologies and launcher systems.
- *Satellites* — The Satellites business unit develops and manufactures satellite systems for science, earth observation, communication and security applications. These activities are mainly concentrated at Dornier Satellitensysteme GmbH.
- *Defense and Civil Systems* — The business unit Defense and Civil Systems combines the activities of the Group as well as of several subsidiaries and joint ventures in the fields of defense electronics and missile systems, civil equipment systems and services.

The Group's management reporting and controlling systems are substantially the same as those described in the summary of significant accounting policies (U.S. GAAP). The Group measures the performance of its operating segments through "Operating Profit." Segment Operating Profit is defined as income before financial income and income taxes included in the combined statement of income, modified to exclude certain pension costs and to include certain administrative charges from DCAG and certain financial income, net.

Sales and revenues related to transactions between segments are generally recorded at prices that approximate third-party selling prices. Revenues are allocated to countries based on the location of the customer. Long-term assets are allocated based on the location of the respective units. Capital expenditures represent the purchase of property, plant and equipment.

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

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

	<u>Commercial Aircraft</u>	<u>Aeronautics</u>	<u>Space Infrastructure</u>	<u>Satellites</u>	<u>Defense and Civil Systems</u>	<u>Other/ Eliminations</u>	<u>Combined</u>
1999							
Revenues.....	3,279	1,506	552	446	1,655	17	7,455
Intersegment sales	<u>61</u>	<u>276</u>	<u>40</u>	<u>12</u>	<u>69</u>	<u>(458)</u>	<u>—</u>
Total revenues.....	3,340	1,782	592	458	1,724	(441)	7,455
Operating Profit.....	300	128	51	15	64	(31)	527
Income (loss) from companies included at equity	(62)	—	—	(3)	—	—	(65)
Identifiable segment assets	4,150	1,909	471	536	1,654	1,017	9,737
Capital expenditures.....	151	59	10	5	50	8	283
Depreciation and amortization	115	56	11	9	50	14	255
1998							
Revenues.....	2,870	1,403	526	629	1,687	—	7,115
Intersegment sales	<u>92</u>	<u>234</u>	<u>56</u>	<u>16</u>	<u>42</u>	<u>(440)</u>	<u>—</u>
Total revenues.....	2,962	1,637	582	645	1,729	(440)	7,115
Operating Profit.....	200	122	54	41	65	14	496
Income (loss) from companies included at equity	(91)	—	—	—	—	—	(91)
Identifiable segment assets	4,605	1,963	467	463	1,610	1,720	10,828
Capital expenditures.....	137	81	12	7	50	4	291
Depreciation and amortization	102	47	10	10	73	14	256
1997							
Revenues.....	2,393	1,242	527	726	1,415	—	6,303
Intersegment sales	<u>40</u>	<u>224</u>	<u>38</u>	<u>15</u>	<u>38</u>	<u>(355)</u>	<u>—</u>
Total revenues.....	2,433	1,466	565	741	1,453	(355)	6,303
Operating Profit.....	30	64	57	24	(22)	19	172
Income (loss) from companies included at equity	62	—	—	—	—	—	62
Identifiable segment assets	3,679	1,822	418	394	1,540	1,316	9,169
Capital expenditures.....	118	42	11	9	40	1	221
Depreciation and amortization	121	54	10	10	53	15	263

A reconciliation of income before financial income and income taxes to operating profit follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Income before financial income, income taxes and minority interests	461	464	8
Not allocated:			
Certain pension costs.....	133	131	121
Allocated:			
Income from certain investments	(29)	(63)	67
Administrative charges	(44)	(26)	(24)
Other.....	6	(10)	—
Combined operating profit.....	<u>527</u>	<u>496</u>	<u>172</u>

Dasa

Notes to Combined Financial Statements — (Continued)
(in millions of €)

Revenues by geographic regions are as follows:

	<u>Germany</u>	<u>Other European Countries</u>	<u>North America</u>	<u>Latin America</u>	<u>Asia</u>	<u>Other Countries</u>	<u>Combined</u>
1999.....	2,334	4,515	287	63	221	35	7,455
1998.....	2,233	4,113	467	79	200	23	7,115
1997.....	1,877	3,667	320	242	161	36	6,303

22. Formation of Astrium

In October 1999, Dasa, Aerospatiale Matra and BAe Systems plc signed a formation agreement for a tri-national European space company to be named Astrium. Astrium is expected to combine the space systems businesses of Dasa and Matra Marconi Space, a joint venture of Aerospatiale Matra and BAe Systems, in the first half of 2000. Consummation of the merger is subject to various conditions, including among others, approval of certain governmental authorities.

Independent Auditors' Report

We have audited the accompanying combined balance sheets of Dasa, as defined in Note 1, Summary of significant accounting policies, of the accompanying combined financial statements, as of December 31, 1999 and 1998, and the related combined statements of income, cash flows and changes in net assets for each of the years in the three-year period ended December 31, 1999. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

The Company has accounted for certain joint ventures in accordance with the proportionate method of consolidation as is permitted under the Seventh Directive of the European Community and the Standards of the International Accounting Standards Committee. In our opinion, United States generally accepted accounting principles require that such joint ventures be accounted for using the equity method of accounting.

In our opinion, except for the use of the proportionate method of consolidation as discussed in the preceding paragraph, the combined financial statements referred to above present fairly, in all material respects, the financial position of Dasa as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with United States generally accepted accounting principles.

Munich
February 14, 2000

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Schmid)
Certified Accountant

(Dr. Dauner)
Certified Accountant

1999 FINANCIAL STATEMENTS PREPARED BY THE DIRECTORS OF
CONSTRUCCIONES AERONÁUTICAS, S.A.

BALANCE SHEETS
STATEMENTS OF INCOME
NOTES TO FINANCIAL STATEMENTS

CASA's HISTORICAL FINANCIAL STATEMENTS

KEY FIGURES (in € millions)

	Fiscal Year 1999	Fiscal Year 1998	Fiscal Year 1997
INCOME			
Revenues.....	941	793	724
Value added.....	539	500	482
Operating income	130	105	101
Current income.....	94	104	67
Total net income.....	81	47	39
	31/12/1999	31/12/1998	31/12/1997
	Net Amount	Net Amount	Net Amount
FIXED ASSETS	224	210	211
Current assets			
Inventories and work-in-progress	229	228	245
Receivables and accruals	334	216	223
Short-term investment securities, cash and cash equivalents	571	383	191
	1,134	827	659
Total assets	1,358	1,037	870
Shareholders' equity.....	480	416	388
Loss and contingency provisions.....	63	71	50
Liabilities			
Long-term debt	57	77	82
Other liabilities and accruals.....	758	473	350
	815	550	432
Total liabilities	1,358	1,037	870

CONSTRUCCIONES AERONÁUTICAS, S.A.
BALANCE SHEETS AS DECEMBER 31, 1999, 1998 AND 1997

ASSETS		1999	1998	1997
		(currency — millions of spanish pesetas)		
1.	FIXED AND OTHER NONCURRENT ASSETS	37,197	34,931	35,045
1.2.	Intangible assets (Note 5)	592	2,378	2,409
1.2.1.	Research and development expenses	16,884	19,434	19,076
1.2.2.	EDP applications	5,520	5,520	5,520
1.2.3.	Rights on leased assets	—	—	185
1.2.4.	Accumulated amortization.....	(21,812)	(22,576)	(22,372)
1.3.	Tangible fixed assets (Note 6)	31,789	28,056	26,997
1.3.1.	Land and structures	19,237	18,843	18,912
1.3.2.	Technical installations and machinery.....	9,786	9,511	8,853
1.3.3.	Other installations, tools and furniture.....	36,968	37,052	36,138
1.3.4.	Advances and construction in progress.....	14,733	7,338	2,001
1.3.5.	Other tangible fixed assets.....	12,401	12,080	11,708
1.3.6.	Provisions.....	(1,632)	(1,650)	—
1.3.7.	Accumulated depreciation	(59,704)	(55,118)	(50,615)
1.4.	Long-term financial investments (Note 7)	4,541	4,222	4,499
1.4.1.	Holdings in Group Companies	5,564	5,564	5,564
1.4.2.	Loans to Group companies (Note 17)	537	543	459
1.4.3.	Holdings in associated companies.....	540	390	389
1.4.4.	Loans to associated companies (Note 17).....	100	150	150
1.4.5.	Long-term investment securities.....	2,050	1,672	1,559
1.4.6.	Other long-term loans	1	30	31
1.4.7.	Long-term deposits and guarantees	32	35	33
1.4.8.	Capital payment payable.....	(310)	(34)	(33)
1.4.9.	Provisions.....	(3,973)	(4,128)	(3,653)
1.5.	Long-term accounts receivable	275	275	1,140
2.	DEFERRED CHARGES	90	106	225
3.	CURRENT ASSETS	188,569	137,603	109,284
3.1.	Inventories	38,111	37,895	40,562
3.1.1.	Commercial inventories	6,224	5,311	5,603
3.1.2.	Raw materials	13,296	13,827	10,809
3.1.3.	Work-in-process and semifinished products	25,846	27,432	31,150
3.1.4.	Finished products.....	1,224	208	1,478
3.1.5.	Advances to suppliers.....	2,153	606	869
3.1.6.	Provisions.....	(10,652)	(9,489)	(9,347)
3.2.	Accounts receivable	55,514	35,739	36,635
3.2.1.	Customer receivables for sales and services (Note 8).....	44,357	27,769	29,514
3.2.2.	Receivable from Group companies (Note 17).....	256	841	1,093
3.2.3.	Sundry accounts receivable	3,287	1,303	1,059
3.2.4.	Employee receivables	841	375	463
3.2.5.	Tax receivables (Note 9)	7,612	6,215	5,284
3.2.6.	Provisions.....	(839)	(764)	(778)
3.3.	Short-term financial investments	94,664	63,709	31,760
3.3.1.	Investment securities (Note 4-c).....	89,607	58,694	26,810
3.3.2.	Other loans (Note 17).....	5,055	5,013	4,858
3.3.3.	Short-term deposits and guarantees	2	2	2
3.4.	Cash	191	107	50
3.5.	Accrual accounts	89	153	367
TOTAL ASSETS		<u>225,856</u>	<u>172,640</u>	<u>144,554</u>

The accompanying Notes 1 to 25 are an integral part of the balance sheet as of December 31, 1999

CONSTRUCCIONES AERONÁUTICAS, S.A.
BALANCE SHEETS AS DECEMBER 31, 1999, 1998 AND 1997
STOCKHOLDERS' EQUITY AND LIABILITIES

	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(currency — millions of spanish pesetas)		
1. STOCKHOLDERS' EQUITY (Note 10).....	79,945	69,277	64,259
1.1. Capital stock.....	46,425	46,425	46,425
1.2. Legal reserve.....	6,519	5,739	5,089
1.3. Revaluation reserve Royal Decree-Law 7/1996.....	3,756	3,756	3,756
1.4. Voluntary reserve.....	9,791	5,559	2,489
1.5. Income for the year.....	13,454	7,798	6,500
2. DEFERRED REVENUES.....	2,982	3,289	3,365
2.1. Capital subsidies (Notes 4-f and 11).....	2,707	3,014	3,088
2.2. Other deferred revenues.....	275	275	277
3. PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 12).....	10,475	11,797	8,212
3.1. Provisions for pensions and similar obligations.....	1,061	1,037	1,004
3.2. Other provisions.....	303	430	478
3.3. Provisions for other contingencies.....	9,111	10,330	6,730
4. LONG-TERM DEBT.....	9,500	12,882	13,756
4.1. Payable to Group and associated companies (Note 13 and 17).....	2,961	3,902	3,448
4.2. Other accounts payable (Note 15).....	6,539	8,980	10,308
5. CURRENT LIABILITIES.....	122,954	75,395	54,962
5.1. Payable to credit entities (Note 14).....	1,920	1,412	891
5.1.1. Loan and other payables.....	1,904	1,385	872
5.1.2. Accrued interest payable.....	16	27	19
5.2. Payable to Group and associated companies (Note 13 and 17)....	1,717	1,492	1,606
5.3. Trade accounts payable.....	95,328	61,633	42,501
5.3.1. Advances on orders (Note 4-n).....	59,547	42,934	26,304
5.3.2. Accounts payable for purchases and services.....	29,303	11,015	11,471
5.3.3. Notes payable.....	6,478	7,648	4,726
5.4. Other nontrade payables.....	23,989	10,817	9,835
5.4.1. Accrued taxes payable (Note 9).....	3,859	3,407	3,466
5.4.2. Other payables.....	11,000	4,727	3,994
5.4.3. Compensation payable.....	9,130	2,631	2,323
5.4.4. Short-term deposits and guarantees received.....	—	52	52
5.5. Accrual accounts.....	—	41	129
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES...	<u>225,856</u>	<u>172,640</u>	<u>144,584</u>

The accompanying Notes 1 to 25 are an integral part of the balance sheet as December 31, 1999

CONSTRUCCIONES AERONÁUTICAS, S.A.
 STATEMENTS OF INCOME
 FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

DEBIT		1999	1998	1997
		(currency — millions of spanish pesetas)		
A)	EXPENSES			
1.	Decrease in finished product and work-in-process inventories.....	551	4,988	—
2.	Procurements	66,394	43,702	41,254
2.1.	Purchases.....	66,777	46,428	41,736
2.2.	Variations in inventories of goods for resale and raw materials.....	(383)	(2,726)	(482)
3.	Personnel expenses	49,003	47,559	46,049
3.1.	Wages, salaries and similar expenses.....	37,358	36,276	35,110
3.2.	Employee welfare expenses	11,645	11,283	10,939
4.	Period depreciation and amortization	7,232	5,860	3,722
5.	Variation in operating provisions.....	2,286	1,571	2,549
5.1.	Variation in inventory provisions.....	1,163	142	1,705
5.2.	Variation in provisions for and losses on uncollectible receivables	82	(11)	105
5.3.	Variation in other provisions for contingencies and expenses (Note 12).....	1,041	1,440	739
6.	Other operating expenses.....	15,207	15,765	14,604
6.1.	Outside services	14,702	15,449	14,403
6.2.	Taxes other than income tax	505	316	201
I.	OPERATING INCOME	21,577	17,407	16,965
7.	Financial and similar expenses	1,607	1,228	1,147
8.	Variation in financial investment provisions and income from EIG	1,328	1,605	—
9.	Exchange losses (Note 4-1).....	6,840	3,300	8,918
II.	FINANCIAL INCOME	—	—	—
III.	INCOME FROM ORDINARY ACTIVITIES	15,695	17,236	10,961
10.	Extraordinary expenses (Note 21)	7,317	10,078	6,205
IV.	EXTRAORDINARY INCOME (Note 21).....	1,495	—	—
V.	INCOME BEFORE TAXES	17,190	8,320	7,387
11.	Corporate income tax (Note 16).....	3,736	522	887
VI.	INCOME FOR THE YEAR (Note 3).....	13,454	7,798	6,500

The accompanying Notes 1 to 25 are an integral part of the statement of income 1999

CONSTRUCCIONES AERONÁUTICAS, S.A.
 STATEMENTS OF INCOME
 FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

CREDIT

		<u>1999</u>	<u>1998</u>	<u>1997</u>
		(currency — millions of spanish pesetas)		
B)	REVENUES			
	Net revenues (Note 18)	202,049	167,747	154,888
	Share in joint business (Note 18)	(45,505)	(35,941)	(34,346)
1.	Net sales (Note 18)	156,544	131,806	120,542
1.1.	Sales.....	141,518	119,132	107,023
1.2.	Sales of developments and technical assistance.....	15,026	12,674	13,519
2.	Increase in finished product and work-in-process inventories	—	—	1,289
3.	Capitalized expenses of in-house work on fixed assets	4,805	4,031	2,218
4.	Other operating revenues	901	1,015	1,094
4.1.	Sundry and other operating revenues.....	317	364	620
4.2.	Operating subsidies	584	651	474
I.	OPERATING LOSS	—	—	—
5.	Revenues from shareholdings.....	26	30	25
6.	Revenues from other marketable securities and noncurrent loans	—	—	—
7.	Other interest and similar revenues.....	2,347	2,617	1,438
8.	Exchange gains (Note 4-m).....	1,520	3,315	2,598
II.	FINANCIAL LOSS	5,882	171	6,004
III.	LOSS ON ORDINARY ACTIVITIES	—	—	—
9.	Capital subsidies transferred to income for the year (Note 11 and 21)	2,630	927	269
10.	Extraordinary revenues (Note 21).....	6,182	235	2,362
IV.	EXTRAORDINARY LOSS (Note 21)	—	8,916	3,574
V.	LOSS BEFORE TAXES	—	—	—
VI.	LOSS FOR THE YEAR	—	—	—

The accompanying Notes 1 to 25 are an integral part of the statement of income 1999

Translation of a report and financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25). In the event of a discrepancy, the Spanish-language version prevails.

CONSTRUCCIONES AERONÁUTICAS, S.A.

NOTES TO 1999 FINANCIAL STATEMENTS

(1) COMPANY DESCRIPTION

Construcciones Aeronáuticas, S.A. (CASA) was formed as a corporation in 1923 and its name has remained unchanged since incorporation. The Company is considered to be of interest for Spain's national defense. Its registered office is at Avenida de Aragón 404, Madrid. Its main corporate purpose is as follows:

1. Research, preliminary study, design, construction, modification, maintenance and repair of aircraft of all kinds for civil or military use, whether prototypes or production models, and of components and replacement parts therefor, and of space systems and parts or subassemblies thereof.
2. Marketing in Spain and abroad of aeronautical and space products and of any other techniques, products or services.

(2) BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

a) *True and fair view*—

The accompanying financial statements, which were prepared from the Company's accounting records, are presented in accordance with the Spanish National Chart of Accounts and, accordingly, they give a true and fair view of the Company's net worth, financial position and results of operations and of the funds obtained and applied by it. These financial statements, which were prepared by the Company's directors, will be submitted for approval by the Stockholders' Meeting and are expected to be approved without any changes.

b) *Accounting policies*—

The accompanying financial statements were prepared by applying the accounting principles established in the Commercial Code and the Spanish National Chart of Accounts enacted by Royal Decree 1643/1990.

(3) DISTRIBUTION OF INCOME

The Directors propose the following distribution of 1999 income:

	<u>Distributable Income</u>	<u>Distribution</u>
	Millions of Pesetas	
Income for the year	13,454	
Voluntary reserves		2,125
Legal reserve		1,346
Dividends ^(a)		9,983
Total	<u>13,454</u>	<u>13,454</u>

(a) This dividend is equal to €60 million.

(4) VALUATION STANDARDS

The main valuation methods applied by the Company in preparing its 1999 financial statements, in accordance with the Spanish National Chart of Accounts and current corporate legislation, were as follows:

a) *Intangible assets*—

This caption includes basically research and development expenses representing the costs incurred on aeronautical program projects.

The research and development expenses and EDP application costs are valued at acquisition or production cost.

Aeronautical program research and development expenses start to be amortized at the beginning of series production under the programs. The expenses incurred in programs for which the sale of a given number of units is assured are amortized by the straight-line method on the basis of the units sold in the year, in a maximum period of ten years. The expenses incurred in programs for which there is no reasonable assurance about the number of units to be sold in the future are amortized on a straight-line basis over five years, except in cases in which the billings are subject to commercial risk.

If there are reasonable doubts as to the future viability of the programs, the unamortized balances are charged to income in the year in which this situation becomes known by recording the appropriate value adjustments.

b) Tangible fixed assets—

Tangible fixed assets acquired prior to 1996 are carried at acquisition or production cost revalued pursuant to the applicable enabling legislation, mainly Royal Decree — Law 7/1996. The initial effect of this revaluation amounted to Ptas. 3,872 million, the net effect of which amounts to approximately Ptas. 2,412 million at the present date. Additions subsequent to 1996 are carried at acquisition or production cost.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful life of the assets are capitalized. In the event of irreversible diminution in value of assets, the Company recorded the appropriate depreciation charges for value adjustment purposes. Assets retired are written off from the related fixed asset and accumulated depreciation accounts.

Upkeep and maintenance expenses are expensed currently.

In-house work on fixed assets is reflected at production cost (external costs per suppliers' invoices, internal costs calculated on the basis of in-house consumption of warehouse materials, and manufacturing costs based on the same hourly absorption rates as those used to value inventories).

Tangible fixed assets are depreciated by the straight-line method at annual rates based on the years of estimated useful life. In certain programs, tools are depreciated on the basis of the estimated number of units that will foreseeably be sold based on the product to which they are assigned, subject to a limit of ten years.

	<u>Years of Estimated Useful Life</u>
	<u>1999</u>
Buildings.....	33
Housing units	38
Fixed installations.....	12.5
Industrial installations.....	8.3
Machinery, equipment	8.3
Instruments	6.7
Hand tools and machine tools.....	5
Internal transport equipment.....	8.3
External transport equipment.....	4
Demonstration aircraft and simulators	5-7
Computer hardware.....	4
Furniture.....	10

c) Long- and short-term financial investments—

The Company's shareholdings included under the "Long-Term Financial Investments" caption are carried at cost revalued pursuant to the enabling provisions of the 1983 Budget Law, net, where appropriate, of the required allowance for diminution in value if cost exceeds the underlying book value of the holdings per the investees' financial statements (see Note 7).

The Company did not prepare consolidated financial statements as of December 31, 1999, since the effect of consolidation would not be material with respect to the Company's financial statements as of that date.

The short-term financial investments relate basically to Eurodeposits, which are valued at cost, earn interest at market rates and mostly mature in January 2000.

d) Inventories—

Inventories are valued at average acquisition or production cost. When the market value is lower than acquisition or production cost, a value adjustment is made by recording the related allowance.

Production cost is calculated as follows:

- Labor and general manufacturing expenses are allocated to work-in-process on the basis of the actual hours incurred, valued at annually budgeted hourly rates, which is basically valuation at actual cost.
- Raw materials are allocated to work-in-process at average warehouse value plus internal warehousing and handling costs.
- Other direct costs are allocated at actual acquisition cost.

Provisions are recorded to cover the slow-movement or obsolescence risks which might arise until inventories are realized.

e) Capital subsidies—

The capital subsidies are nonrefundable and are valued at the amount granted.

Capital subsidies are allocated to income in proportion to the expenses incurred and to the depreciation taken on the subsidized assets (see Note 11).

f) Provisions for contingencies and expenses—

These provisions relate to the estimated amount required for probable or certain third-party liability arising from outstanding contracts, litigation in progress or obligations of undetermined amount. These provisions are recorded when the liability or obligation giving rise to the payment arises.

g) Recording of the Company's share in the results of the Airbus Industrie Economic Interest Grouping—

As an associated constructor in the Airbus Industrie Economic Interest Grouping (EIG), the Company's share in this consortium's annual results is proportional to its participation interest therein (4.2% at present).

Also, under the Airbus EIG's bylaws, the Company is jointly and severally liable with its own equity for the Group's debts. This liability is not reflected in the Company's balance sheet, since it cannot be objectively quantified. The Company's directors do not currently consider that any material loss may arise for the Company from this situation.

h) Classification of debt—

The balances of accounts receivable and payable are classified in the accompanying balance sheet on the basis of the period from the date of the financial statements to the due dates of the related balances. Debts maturing in under one year, as defined above, are classified as current liabilities and those maturing at over one year as long-term debt.

As an exception to the foregoing method, and as stipulated by the Spanish National Chart of Accounts, the Company records prepaid taxes to be allocated to income under the "Current Assets — Accounts Receivable — Tax Receivables" caption in the accompanying balance sheet, regardless of the period in which such tax prepayments may be recovered.

i) Debts—

Short- and long-term debts are recorded at face value, and the difference between the face value and the amount received is recorded on the asset side of the balance sheet as deferred interest expenses, which are allocated to income each year by the interest method.

The transactions with the Airbus Industrie Economic Interest Grouping are recorded in a current account which, depending on the balance, will be recorded on the asset side of the balance sheet under "Accounts Receivable" or on the liability side under "Customer Advances" and bears annual interest tied to Libor.

j) Corporate income tax—

The corporate income tax of each year is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, net of tax relief and tax credits, excluding tax withholdings and prepayments.

The Company belongs to the SEPI (Sociedad Estatal de Participaciones Industriales) holding company which is taxed under the consolidated tax system (consolidated tax group 9/86).

k) Foreign currency transactions—

The balances of accounts receivable and payable denominated in foreign currencies are translated to pesetas at the exchange rates ruling at the transaction date.

Exchange differences arising on adjustment to year-end exchange rates of the foreign currency accounts payable and receivable which will give rise to collections or payments in the future are classified by due date and currency, and for this purpose the currencies which, although different, are officially convertible are grouped together. Balances hedged at a specific exchange rate through foreign currency futures contracts are translated to pesetas at the related hedged exchange rate (see Note 14).

The positive net differences in each group are recorded under the “Deferred Revenues” caption on the liability side of the balance sheet. The negative net differences in each group are charged to income.

The Company records sales at the average exchange rate of each month and the related exchange differences are recorded on application of exchange hedging and customer advances.

l) Termination indemnities and other labor force restructuring costs—

Under current labor legislation, the Company is required to make indemnity payments to employees terminated without just cause.

Termination indemnity payments are charged to income when they are paid or become known (see Notes 12 and 21).

m) Product warranty and technical assistance—

The Company’s sales contracts include warranty clauses which, for its own products, generally cover one year from the delivery of the aircraft or a specific number of flying hours (see Note 12).

n) Recognition of revenues—

Revenues are recognized on an accrual basis generally upon delivery.

Revenues from in-house products (aircraft) are recognized by the “substantially completed contract” method, provided that there is a firm contract, that no significant costs are expected to be incurred subsequently and that the product is delivered within two months from year-end.

Revenues from development programs with sale contract to third parties or financed through refundable advances under commercial venture financing contracts are recognized up to the limit of such sale contract or financing, on the basis of the percentage of completion of the project in progress.

The Company records as customer “Advances on Orders” prebillings on in-house product contracts and collections on programs which are billed by the percentage-of-completion or as milestones are achieved. These advances are canceled as revenues are recognized.

Most of the advances recorded in the balance sheet as of December 31, 1999, relate to aircraft programs of European consortia.

(5) INTANGIBLE ASSETS

The variations in 1999 in the intangible asset accounts and in the related accumulated amortization were as follows:

	<u>Balance at 12/31/98</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at 12/31/99</u>
	Million of Pesetas				
Cost					
Research and development expenses.....	19,434	182	2,732		16,884
Computer applications.....	<u>5,520</u>				<u>5,520</u>
Total cost	<u>24,954</u>	<u>182</u>	<u>2,732</u>		<u>22,404</u>
Accumulated amortization					
Research and development expenses.....	17,056	182	946		16,292
Computer applications.....	<u>5,520</u>				<u>5,520</u>
Total accumulated amortization	<u>22,576</u>	<u>182</u>	<u>946</u>		<u>21,812</u>
Net intangible assets	<u>2,378</u>	<u>—</u>	<u>1,786</u>		<u>592</u>

The balance of “Intangible Assets” relates basically to projects financed as commercial ventures (see Note 13); the retirements relate to cancellation of research and development projects (see note 21).

(6) TANGIBLE FIXED ASSETS

The variations in 1999 in tangible fixed asset accounts and in the related accumulated depreciation were as follows:

	<u>Balance at 12/31/98</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at 12/31/99</u>
	Millions of Pesetas				
COST					
1. Land and structures	18,843	44	664	1,104	19,237
Land.....	1,251	3			1,254
Buildings.....	17,564	41	663	1,014	17,956
Housing units.....	28		1		27
2. Technical installations and machinery	9,511	96	639	818	9,786
Machinery.....	8,559	66	603	796	8,818
Internal transport equipment.....	953	30	36	22	968
3. Other installations, tools and furniture	37,052	234	861	543	36,968
Industrial installations.....	3,884	9	220	0	3,673
Fixed installations.....	7,132	44	409	117	6,884
Instruments.....	2,775	75	43	56	2,863
Equipment.....	3,125	44	53	107	3,223
Hand tools and machine tools.....	17,295	0	56	236	17,475
Furniture.....	2,841	62	80	27	2,850
4. Advances and construction in progress	7,338	10,156	0	(2,761)	14,733
Construction in progress.....	5,846	7,493	0	(1,439)	11,900
Tangible fixed assets pending receipt.....	976	1,690	0	(1,134)	1,532
Advances to suppliers.....	516	973	0	(188)	1,301
5. Other tangible fixed assets	12,080	444	509	386	12,401
External transport equipment.....	219	29	25	6	229
Demonstration aircraft.....	2,045	0	0	0	2,045
Computer hardware.....	<u>9,816</u>	<u>415</u>	<u>484</u>	<u>380</u>	<u>10,127</u>
Total cost	<u>84,824</u>	<u>10,974</u>	<u>2,673</u>	<u>0</u>	<u>93,125</u>
Accumulated depreciation					
Structures.....	7,840	1,572	554		8,858
Technical installations and machinery.....	6,989	2,378	631		8,736
Other installations, tools and furniture.....	30,464	1,836	759		31,541
Other tangible fixed assets.....	<u>9,825</u>	<u>1,248</u>	<u>504</u>		<u>10,569</u>
Total accumulated depreciation	<u>55,118</u>	<u>7,034</u>	<u>2,448</u>	<u>0</u>	<u>59,704</u>
Provisions					
Total provisions	<u>1,650</u>	<u>309</u>	<u>327</u>		<u>1,632</u>
Net tangible fixed assets	<u>28,056</u>	<u>3,631</u>	<u>(102)</u>	<u>0</u>	<u>31,789</u>

Ptas. 3,274 million of accelerated depreciation was taken on tangible fixed assets relating to contracts under which revenue is recognized by the percentage-of-completion method.

The Company recorded provisions for the net book value of certain tangible fixed assets which it is intended to replace in future years under a modernization and technical development plan for its manufacturing plants.

As of December 31, 1999, Ptas. 42,469 million of tangible fixed assets had been fully depreciated. These assets are used in operations.

Certain of the fixed assets relating to the Getafe (Madrid) plant are located on land owned by Spanish State agencies and there is no formal agreement for the assignment of this land to the Company. Per a study conducted by the Company, the net cost per books of the plant's buildings and installations located on this land was Ptas. 3,521 million as of December 31, 1999.

Also, substantially all the buildings of the San Pablo (Seville) plant stand on land which is not owned by the Company but is occupied by it under administrative concessions which are tacitly renewed each year and will expire from 2000 to 2008. The Company pays the lease royalty to the related agencies. Most of the structures are not registered in the Property Register. The net cost per books of the buildings and installations located on land under administrative concessions at this plant was Ptas. 1,213 million as of December 31, 1999.

Company management considers that no loss will arise from the two situations described above.

The Company has taken out insurance policies to cover the main risks to which its tangible fixed assets and inventories may be subject.

(7) LONG-TERM FINANCIAL INVESTMENTS

The variations in 1999 in the long-term financial investment accounts were as follows:

	<u>Balance at 12/31/98</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfer to Short Term</u>	<u>Balance at 12/31/99</u>
	Millions of Pesetas				
Shareholdings:					
Group companies	5,564				5,564
Provisions for Group companies.....	(3,745)		(62)		(3,683)
Associated companies	390	150			540
Provisions for associated companies.....	(310)		(55)		(255)
Other shareholdings	1,672	407	29		2,050
Provisions for other shareholdings.....	(65)		(30)		(35)
Capital payments payable.....	(34)	(411)	(135)	—	(310)
Subtotal.....	<u>3,472</u>	<u>146</u>	<u>(253)</u>	<u>—</u>	<u>3,871</u>
Loans:					
Group companies	543			(6)	537
Associated companies	150	100	150		100
Other loans.....	30		29		1
Provisions for other loans.....	(8)		(8)		0
Deposits and guarantees.....	35	—	3	—	32
Subtotal.....	<u>750</u>	<u>100</u>	<u>174</u>	<u>(6)</u>	<u>670</u>
Total.....	<u>4,222</u>	<u>246</u>	<u>(79)</u>	<u>(6)</u>	<u>4,541</u>

In accordance with the method described in Note 4-c, the variation in the period provision for diminution in value of Group and associated companies amounted to Ptas. 117 million in 1999 (see Note 21).

The detail of the holdings in Group and associated companies and of the long-term investment securities as of December 31, 1999, is as follows:

	<u>Cost</u>	<u>Allowance for Diminution in Value</u>	<u>Capital Payments Payable</u>	<u>Long-Term Financial Investments</u>
	Millions of Pesetas			
Group companies:				
CASA-AIRCRAFT USA, INC.	3,813	(3,223)		591
CESA, S.A.	869	(61)		808
AISA.....	882	(400)		482
Total Group companies	<u>5,564</u>	<u>(3,683)</u>	<u>0</u>	<u>1,881</u>
Associated companies:				
HELICÓPTEROS EUROCOPTER	4			4
AIRTEC.....	5			5
SACESA.....	285	(10)		275
GIRALDA EMIRATES LLC.....	245	(245)		(0)
CEDIEF A.I.E.	1			1
Total associated companies	<u>540</u>	<u>(255)</u>	<u>0</u>	<u>285</u>
Investment securities:				
AIRBUS FINANCE COMPANY ⁽¹⁾	1,064			1,064
DEFEX	278			278
ICSA.....	541		(225)	316
ARIANESPACE	42		(31)	11
EUROFIGHTER, GMBH	69		(52)	17
OTHER COMPANIES	56	(35)	(2)	19
Total investment securities	<u>2,050</u>	<u>(35)</u>	<u>(310)</u>	<u>1,705</u>
Total	<u>8,154</u>	<u>(3,973)</u>	<u>(310)</u>	<u>3,871</u>

(1) Ownership interest of 4.2%.

The information on the main Group, associated and multigroup companies is as follows:

	<u>% of Ownership</u>	<u>Capital Stock</u>	<u>Reserves</u>	<u>Prior Year's Income (Loss)</u>	<u>Currency</u>
CASA-AIRCRAFT USA, INC.	100	32	(28)	(1)	Millions of U.S.\$
CESA, S.A.	60	1,448	(211)	18	Millions of pesetas
AISA.....	100	30	436	87	Millions of pesetas
SACESA.....	45	409	111	166	Millions of pesetas
GIRALDA EMIRATES LLC.....	49	15	—	(1)	Millions of dirhams
CEDIEF, A.I.E.	50	2	—	(1)	Millions of pesetas

Group companies:

CASA-AIRCRAFT USA, INC.

Registered office: 3810 Concorde Parkway, Suite 1,000
Chantilly — Virginia
22021 USA

Line of business: Marketing of aircraft and aircraft parts and components manufactured by CASA and technical service to users in USA.

CESA, S.A.

Registered office: Avenida John Lennon, s/n
Getafe
28906 — MADRID

Line of business: Design, development, manufacture, assembly and sale of, and after-sales service for, equipment and accessories for the aerospace and defense industries.

AISA

Registered office: Carretera del Aeroclub, s/n
Cuatro Vientos
28044 — MADRID

Line of business: This company engages in the design, construction and manufacture, repair, modernization, marketing, sale and maintenance of aircraft of any kind, and activities relating thereto, both in Spain and abroad.

Associated and multigroup companies:

GIRALDA EMIRATES LLC

Registered office: P.O. Box 25894
ABU DHABI UAE

Line of business: Manufacture, sale and marketing of construction materials.

SACESA

Registered office: c/ Torneo, 26
Seville

Line of business: Development, manufacture and marketing of aerospace-related metal, composite-material and special fiber parts, components and systems and related technologies and processes.

CEDIEF A.I.E.

Registered office: Avenida de Aragón, 404
28022 — Madrid

Line of business: Channeling the financing of industrial aeronautics programs from State agencies to the respective contractors.

The effect of consolidation would not be material on the financial statements of CASA as of December 31, 1999.

(8) CUSTOMER RECEIVABLES

The detail of the balances of the “Customer Receivables for Sales and Services” caption as of December 31, 1999 and 1998, is as follows:

	<u>1999</u>	<u>1998</u>
	<u>Millions of Pesetas</u>	
Ministry of Defense	5,565	5,068
Own aircraft	13,658	7,266
Cooperation projects ^(a)	15,897	7,344
Subcontracts and other	9,237	8,091
Total	<u>44,357</u>	<u>27,769</u>

(a) These relate mostly to European defense consortia.

(9) TAX RECEIVABLES AND ACCRUED TAXES PAYABLE

The detail of the balances of the "Tax Receivables" and "Accrued Taxes Payable" captions as of December 31, 1999, is as follows:

	<u>Receivable</u>	<u>Payable</u>
	Millions of Pesetas	
VAT.....	919	
Personal income tax withholdings		1,016
Deferred tax assets ^(a)	6,583	
Social security taxes.....	4	1,903
Deferred taxes		798
Other items	<u>106</u>	<u>142</u>
Total	<u><u>7,612</u></u>	<u><u>3,859</u></u>

(a) This amount will be recovered through future income tax settlements when the items comprising this amount are included as deductible items in the taxable income of future years. In 1999 deferred tax assets of Ptas. 1,483 million and Ptas. 83 million were recovered and adjusted, respectively, and Ptas. 2,558 million of deferred tax assets were generated (see Note 16).

(10) STOCKHOLDERS' EQUITY

The Company's capital stock consists of fully subscribed and paid registered shares with the following par values:

	<u>Number of</u>	<u>Par Value</u>	<u>Total</u>
	Shares	per Share	Par Value
		Pesetas	Millions of
			Pesetas
Series 1.....	18,041,180	1.14	21
Series 2.....	4,195,882	11.38	48
Series 3.....	102,000,000	28.46	2,903
Series 4.....	11,000,000	569.22	6,261
Series 5.....	4,581,825	793.32	3,635
Series 6.....	<u>4,230,000</u>	<u>7,933.19</u>	<u>33,557</u>
Total			<u><u>46,425</u></u>

As of December 31, 1999, the Company's major stockholder was SEPI, which owned 99.2853% of the shares of Construcciones Aeronáuticas, S.A.

The variations in equity accounts in 1999 were as follows:

	<u>Balance at</u>	<u>Distribution of 1998</u>			<u>Balance at</u>
		<u>Reserves</u>	<u>Dividend</u>	<u>1999</u>	
	<u>12/31/98</u>		<u>Distributed</u>	<u>Income</u>	<u>12/31/99</u>
		Millions of Pesetas			
Capital stock.....	46,425			0	46,425
Legal reserve	5,739	780		0	6,519
Voluntary reserve	5,559	4,232		0	9,791
Revaluation reserve	3,756			0	3,756
Income for the year.....	<u>7,798</u>	<u>(5,012)</u>	<u>(2,786)</u>	<u>13,454</u>	<u>13,454</u>
Total	<u><u>69,277</u></u>	<u><u>0</u></u>	<u><u>(2,786)</u></u>	<u><u>13,454</u></u>	<u><u>79,945</u></u>

Revaluation reserve

The balance of the "Revaluation Reserve Royal Decree-Law 7/1996" account can be used to offset recorded losses and/or to increase capital stock. After ten years from the revaluation date, the balance of this account can be taken to unrestricted reserves.

If this balance were used in a manner other than that provided for in Royal Decree-Law 7/1996, it would be subject to tax.

Legal reserve

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

(11) CAPITAL SUBSIDIES

The variations in this caption in 1999 were as follows:

	<u>Balance at</u> <u>12/31/98</u>	<u>Additions</u>	<u>Amount</u> <u>Used</u>	<u>Balance at</u> <u>12/31/99</u>
	Millions of Pesetas			
Capital subsidies	3,014	2,323	2,630	2,707

The capital subsidies were granted by various State agencies to finance a portion of research and development projects involving both tangible fixed assets and intangible assets, and the related revenue is recognized by the method described in Note 4-e (see Note 21).

The Company meets in all cases the conditions set on the granting of these subsidies.

(12) PROVISIONS FOR CONTINGENCIES AND EXPENSES

The variations in these accounts in 1999 were as follows:

	<u>Balance at</u> <u>12/31/98</u>	<u>Additions</u>	<u>Amount</u> <u>Used</u>	<u>Balance at</u> <u>12/31/99</u>
	Millions of Pesetas			
Provision for pension and similar obligations.....	1,037	38	14	1,061
Provisions for guarantees	430	73	200	303
Provisions for other contingencies:	10,330	2,111	3,330	9,111
Eurofighter — Liability limit ^(a)	3,531	652	—	4,183
Labor force reduction (see Note 24) ^(b)	2,774	—	2,774	—
Other ^(c)	4,025	1,459	556	4,928
Total	<u>11,797</u>	<u>2,222</u>	<u>3,544</u>	<u>10,475</u>

(a) Provision for possible future costs in connection with this program, per the related contracts.

(b) The variation in the provision for labor force reduction relates to the amount allocated to compensation payable for the labor force reduction formalized in the first few months of 2000.

(c) This amount relates mainly to provisions for risks under contracts which might give rise to future liability. Ptas. 800 million of this amount were recorded in 1999 with a charge to extraordinary expenses for the contractual obligation to maintain the replacement part manufacturing and technical support activities under cooperation programs that were halted in 1999.

(13) PAYABLE TO GROUP AND ASSOCIATED COMPANIES

The detail of the debts to Group and associated companies as of December 31, 1999, is as follows:

	<u>Short-</u> <u>Term</u>	<u>Long-</u> <u>Term</u>	<u>Due in</u>				<u>Subsequent</u> <u>Years</u>
			<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	
	Millions of Pesetas						
Research projects ^(a)	175	2,961	83	—	—	—	2,878
Interest payable	215						
Payable for purchases (Note 17)	<u>1,327</u>						
Total	<u>1,717</u>	<u>2,961</u>	<u>83</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,878</u>

(a) Relating basically to loans from SEPI at market rates, the repayment of which is linked to the technical or commercial success of the related projects (see Note 17).

(14) PAYABLE TO CREDIT ENTITIES

The detail of debts to credit entities as of December 31, 1999, is as follows:

	<u>Short-Term</u> <u>Millions</u> <u>of Pesetas</u>
In pesetas	1,590
In foreign currencies	314
Interest payable	16
Total	<u>1,920</u>

The short-term loans and credits have floating interest rates tied to MIBOR for peseta borrowings and to LIBOR for foreign currency borrowings.

Also, at 1999 year-end the Company had arranged forward foreign currency (U.S. dollars) sale contracts for U.S.\$ 484 million to hedge future commercial transactions. However, the Company recognizes the impact of contracts with maturities similar to the accounts receivable as of December 31, 1999, as realized exchange differences, up to the limit of the balance of these accounts.

As of 31, 1999, the Company had undrawn credit facilities with a total limit of Ptas. 10,385 million and U.S.\$ 43 million.

(15) OTHER LONG-TERM ACCOUNTS PAYABLE

Most of the balance of this account (Ptas. 6,539 million) relates to advances received for work on aeronautical programs which has yet to be performed (see Note 4-n) and which will be carried out in the next three years.

Also, in accordance with the method of recognition of revenues from development programs (see Note 4-n), there were refundable advances amounting to Ptas. 19,464 million as of December 31, 1999, which include the R&D program financing loans.

In addition, the amounts payable to the Spanish State for refundable advances on development aid under programs relating to Airbus Industrie amounted to Ptas. 27,213 million as of December 31, 1999, and are recorded as described in Note 4-n. These advances are refunded on the basis of collections on aircraft sales by A.I.

The refundable advances not yet repaid referred to in the foregoing two paragraphs are included in the accounting records and, together with the related development work performed, are netted off for the purpose of presentation in these financial statements.

(16) TAX MATTERS

For corporate income tax purposes, CASA forms part of consolidated tax group 9/86, which currently comprises Sociedad Estatal de Participaciones Industriales and the Spanish-resident companies which form part of its finance consolidated group pursuant to Articles 42 et seq of the Spanish Commercial Code, in accordance with Law 5/1996.

The application of the consolidated taxation system involves the inclusion in the controlling entity (Sociedad Estatal de Participaciones Industriales) of the individual corporate income tax receivables and payables. Therefore, the Company must pay Sociedad Estatal de Participaciones Industriales Ptas. 4,757 million for the 1999 corporate income tax liability, which is recorded under the "Other Payables" caption. The resulting income after taxes amounts to Ptas. 13,454 million.

The corporate income tax recorded in the statement of income amounted to Ptas. 3,736 million in 1999.

The taxable income for 1999 corporate income tax purposes was calculated in accordance with current regulations (Law 43/1995) by adjusting, by application of the provisions of this Law, the book income for the year, determined in accordance with the regulations of the Commercial Code and other relevant implementing laws and provisions.

Consequently, in order to adapt the valuation principles and criteria adopted by the Company for accounting purposes to those envisaged under current corporate income tax regulations, particularly as regards the valuation methods for, and classification and timing of allocation of, revenues and expenses, the following nonaccounting adjustments were made to the book income for the year to determine the taxable income:

	Millions of Pesetas	
	<u>Taxable Income</u>	<u>Tax</u>
INCOME BEFORE TAXES PER BOOKS	17,190	
Permanent differences		
Increase	1,068	
Decrease	(104)	
ADJUSTED INCOME BEFORE TAXES PER BOOKS	<u>18,154</u>	
Timing differences:		
Increases-	7,389	
Current year.....	7,310	
Deferred tax asset liabilities (35%).....		2,558
Prior years	79	
Recovery of deferred taxes (35%).....		28
Decreases-	(4,635)	
Current year.....	(162)	
Deferred tax liabilities (35%).....		(56)
Prior years	(4,473)	
Recovery of deferred tax assets (28%).....		(328)
Recovery of deferred tax assets (35%).....		(1,155)
TAXABLE INCOME	<u>20,908</u>	
TOTAL GROSS TAX PAYABLE	<u>(7,318)</u>	
TAX CREDITS	<u>2,561</u>	
EFFECTIVE TAX PAYABLE	<u>(4,757)</u>	
PREPAYMENT	<u>297</u>	
AMOUNT PAYABLE	<u>(4,460)</u>	
DEFERRED TAX ASSETS AND LIABILITIES		1,047
Negative adjustment to tax.....		(25)
EFFECTIVE TAX PAYABLE	<u>0</u>	<u>(4,757)</u>
CORPORATE INCOME TAX EXPENSE	<u>(3,736)</u>	<u>(3,736)</u>
INCOME FOR THE YEAR	<u>13,454</u>	

Deferred tax assets and liabilities were generated at a rate of 35% and those recovered in 1999 were calculated at 28% or at 35%, depending on the year in which they were generated.

The detail of the timing differences is as follows:

	Millions of Pesetas	
	<u>Increase</u>	<u>Decrease</u>
Labor force reduction	2,960	2,869
Difference between depreciation for tax and accounting purposes	3,114	1,246
Provisions for contingencies and other items.....	1,315	520
Total	<u>7,389</u>	<u>4,635</u>

In 1999 the Company took Ptas. 2,561 million of tax credits earned in years prior to 1999.

Pursuant to current corporate income tax legislation, the unused investment tax credits are as follows:

<u>Year Earned</u>	<u>Tax Credit</u> Millions of Pesetas	<u>Last Year for Use</u>
1996	9	2001
1998	1,327	2003
1999	2,678	2004

The Company has 1996 to 1999 open for review by the tax inspection authorities with respect to personal income tax withholdings, and 1991 to 1999 open for VAT and corporate income tax. The years 1991 to 1997 are being reviewed.

Management of the Company considers that the net worth effect of the liabilities, if any, which might arise as a result of inspection of the open years would not be material.

(17) TRANSACTIONS WITH RELATED AND INVESTEE COMPANIES

The main transactions with related (SEPI Group) and investee companies in 1999 were as follows:

	Investee Companies				Total Investees	SEPI Group Related Companies
	CASA-USA	AISA	CESA, S.A.	SACESA		
	Millions of Pesetas					
Purchases.....	—	—	1,062	2,394	3,456	362
Services received.....	22	1,053	—	—	1,075	357
Interest expenses.....	—	—	—	—	—	65
Sales.....	159	155	56	41	411	417
Interest revenues.....	—	20	—	2	22	207
Extraordinary income.....	—	3	—	—	—	1,387

The detail of the balances with investee and related companies as of December 31, 1999, is as follows:

	Investee Companies				Total Investees	SEPI Group Related Companies
	CASA-USA	AISA	CESA, S.A.	SACESA		
	Millions of Pesetas					
ASSETS:						
Long-term loans (Note 7).....	—	—	537	100	637	—
Short-term receivables.....	28	102	54	2	186	70
Short-term loans.....	—	662	5	50	717	3,831
LIABILITIES:						
Payables for purchases.....	31	411	91	747	1,280	47
Customer advances.....	—	—	—	—	—	14
R&D payables (Note 13).....	—	—	—	—	—	3,351
Other payables (Note 16).....	—	—	—	—	—	4,460
Net balances receivable (payable).....	(3)	353	505	(595)	260	(3,971)

Most of the short-term loans relate to SEPI, bear interest at market rates and are recorded under the "Other Loans" caption.

(18) NET REVENUES

The breakdown of the Company's ordinary net revenues in 1999 is as follows:

	1999	1998
	Millions of Pesetas	
Joint business ^{(a)(b)}	45,505	35,941
Spanish market.....	17,048	18,159
Export market ^(b)	139,496	113,647
Total	202,049	167,747

(a) Relates to joint business with other companies and consortia, the products being mainly for export.

(b) A significant portion of these sales were in U.S. dollars.

Approximately 30% of the Company's ordinary net revenues related to the military market and approximately 70% to the civil market.

The Company does not disclose the breakdown of its net revenues by line of business, since it considers this information to be of a strategic nature.

(19) LABOR FORCE

The average number of employees in 1999 was as follows:

<u>Category</u>	<u>Number of Employees</u>
Executives.....	11
University graduates	1,190
Junior college graduates.....	592
Supervisors	1,221
Non-graduate technicians.....	640
Clerical staff.....	847
Manual workers	2,853
Messengers, etc.....	<u>73</u>
Total	<u><u>7,427</u></u>

(20) DIRECTORS' COMPENSATION

The aggregate compensation paid to the Board members in 1999 was as follows:

	<u>Millions of Pesetas</u>
Salaries.....	65
Per diems.....	<u>12</u>
Total	<u><u>77</u></u>

As of December 31, 1999, Ptas. 5.5 million of advances to directors were pending refund and third-party liability insurance with a coverage of Ptas. 1,000 million, the cost of which is being borne by the Company, had been taken out for the Directors.

(21) EXTRAORDINARY REVENUES AND EXPENSES

The detail of extraordinary items in 1999 is as follows:

	<u>Revenues (Expenses)</u>
	Millions of Pesetas
EXTRAORDINARY REVENUES	
Revenues from development programs ^(a)	5,735
Other extraordinary revenues	<u>318</u>
Subtotal	<u>6,053</u>
CAPITAL SUBSIDIES TRANSFERRED TO INCOME FOR THE YEAR	
Cancellation of projects ^(b)	1,387
Subsidies transferred to period income	<u>1,243</u>
Subtotal (Note 11)	<u>2,630</u>
EXTRAORDINARY EXPENSES	
Labor force reduction (Note 12)	(720)
Collective labor agreement ^(c)	(2,893)
Disposal of tangible fixed assets	(96)
Cancellation of projects ^(b) (Note 5)	(1,784)
Other extraordinary expenses	<u>(1,236)</u>
Subtotal	<u>(6,729)</u>
VARIATION IN PROVISIONS	
Control portfolio (Note 7)	117
Contingencies and expenses	(594)
Tangible fixed assets (Note 6)	<u>18</u>
Subtotal	<u>(459)</u>
EXTRAORDINARY INCOME	<u>1,495</u>

(a) Due to the cancellation in 1999 of the SAAB-2000 program and to the specific situation of the MD-11 program, which has been halted, the Company recorded value adjustments to the liabilities arising from the financing of these programs as commercial ventures, in order to bring their value into line with the projected revenues.

(a) On July 14, 1999, SEPI evaluated the market for the products developed in the research and development projects financed by it and decided to modify the repayment amounts based on the technical and commercial risk. The intangible assets relating to these projects were written down accordingly.

(c) Within the framework of the collective labor negotiations, in 1999 an agreement was reached with the employees to eliminate Article 34 from the Collective Labor Agreement through a lump-sum payment, which was paid in January 2000.

(22) GUARANTEES PROVIDED

The detail of the main guarantees provided by the Company is as follows:

<u>Description</u>	<u>Provided for</u>	<u>Amount</u>
Syndicated loan from Banca Morgan to Airbus Finance Company (Note 7)	AFC	U.S. \$17 million

The Company's directors consider that no significant loss will arise as a result of the guarantee described above.

(23) OTHER SIGNIFICANT MATTERS

Euro and year 2000 adaptation plans

As in prior years, the Company evaluated the impact of the euro and of the "Year 2000 Issue" on its computer systems, installations and machinery and considers that no significant investments will be required.

Also, the expenses and losses incurred in adapting the computer software, other installations and machinery were not material.

No material Y2K incidents had arisen at the date of preparation of these financial statements.

EADS

The State of Spain, acting through SEPI, agreed to merge the Company with Aerospatiale-Matra and Daimler-Chrysler Aerospace within the framework of the European Aeronautic Defense and Space company (EADS).

As a result of this merger, the Company intends to restructure its capital stock through a reduction in equity.

(24) STATEMENTS OF CHANGES IN FINANCIAL POSITION AND CASH POSITION

The 1999 and 1998 statements of changes in financial position are shown in Exhibits I, II and III (pages 24 to 26).

(25) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

1999 AND 1998 STATEMENTS OF CHANGES IN FINANCIAL POSITION
APPLICATION OF FUNDS

	<u>1999</u>	<u>1998</u>
	Millions of Pesetas	
Fixed asset additions:.....	11,537	9,014
Intangible assets (Note 5)	182	379
Tangible fixed assets (Note 6)	10,974	8,431
Long-term financial investments (Note 7).....	381	204
Distribution of dividends	2,786	2,781
Repayment of long-term debt	7,059	6,726
Transfer to short-term debt	1,059	
Use of provisions for contingencies and expenses	584	2,781
Transfer t to short term of provisions for contingencies and expenses.....	<u>2,960</u>	
TOTAL FUNDS APPLIED	<u>25,985</u>	<u>21,302</u>
FUNDS OBTAINED IN EXCESS OF FUNDS APPLIED		
(INCREASE IN WORKING CAPITAL) (see Exhibit II)	<u>3,407</u>	<u>7,857</u>
TOTAL	<u>29,392</u>	<u>29,159</u>
SOURCE OF FUNDS		
From operations (see Exhibit III)	16,290	22,124
Long-term debt:	11,897	5,235
Payable to Group companies	690	
Other accounts payable.....	11,207	
Fixed asset retirements:.....	302	78
Tangible fixed assets, net	129	76
Long-term financial investments	173	2
Transfer to short term of long-term financial investments	6	4
Maturity of long-term accounts receivable	0	865
Capital subsidies	<u>897</u>	<u>853</u>
TOTAL FUNDS OBTAINED	<u>29,392</u>	<u>29,159</u>
FUNDS APPLIED IN EXCESS OF FUNDS OBTAINED		
(DECREASE IN WORKING CAPITAL).....		
TOTAL	<u>29,392</u>	<u>29,159</u>

1999 AND 1998 STATEMENTS OF CHANGES IN FINANCIAL POSITION
VARIATION IN WORKING CAPITAL

	Millions of Pesetas 1999		Millions of Pesetas 1998	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Inventories.....	216			2,667
Accounts receivable.....	19,775			896
Short-term financial investments.....	30,955		32,039	
Cash.....	84		57	
Payable to credit entities.....		508		521
Payable to Group companies.....		225	114	
Trade accounts payable.....		33,695		19,132
Other accounts payable.....		13,172		1,011
Accrual accounts.....		23		126
TOTAL	<u>51,030</u>	<u>47,623</u>	<u>32,210</u>	<u>24,353</u>
VARIATION IN WORKING CAPITAL.....		<u>3,407</u>		<u>7,857</u>
TOTAL	<u>51,030</u>	<u>51,030</u>	<u>32,210</u>	<u>32,210</u>

EXHIBIT III

1999 AND 1998 STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Millions of Pesetas	
	1999	1998
Income for the year per books	13,454	7,798
Add:		
Period depreciation and amortization and fixed asset provisions:		
— Intangible assets (Note 5)	182	250
— Tangible fixed assets (Note 6)	7,016	7,242
— Long-term financial investments (Notes 7 and 21)	(117)	475
Variation in provisions for contingencies and expenses	2,222	6,366
Amortization of deferred charges and start-up expenses	16	17
Net value of disposals and retirements		
— Intangible assets	1,786	18
— Tangible fixed assets	96	54
Recognition of interest on Airbus loss		833
Less:		
Capital subsidies transferred to income for the year (Note 24)	(2,630)	(927)
Repayment of long-term loans	(5,735)	
Revenues from donation		(2)
FUNDS OBTAINED FROM OPERATIONS	<u>16,290</u>	<u>22,124</u>

CONSTRUCCIONES AERONÁUTICAS, S.A.

1999 Financial Statements
together with Auditors' Report

Translation of reports and financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25).

In the event of a discrepancy, the Spanish-language version prevails.

Translation of a report and financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25).

In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Stockholders of
Construcciones Aeronáuticas, S.A.:

1. We have audited the financial statements of CONSTRUCCIONES AERONÁUTICAS, S.A. comprising the balance sheet as of December 31, 1999, and the related statement of income and notes to financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements taken as a whole, based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made
2. As required by Spanish Corporate Law, for comparison purposes the directors present, in addition to the 1999 figures, for each item in the balance sheet and the statements of income and of changes in financial position, the figures for 1998. Our opinion refers only to the 1999 financial statements. Our auditors' report dated March 18, 1999, on the 1998 financial statements contained an unqualified opinion.
3. In our opinion, the financial statements referred to above present, in all material respects, a true and fair view of the net worth and financial position of Construcciones Aeronáuticas, S.A. as of December 31, 1999, and of the results of its operations and of the funds obtained and applied by it in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.
4. The accompanying management report for 1999 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the management report is consistent with that contained in the financial statements for 1999. Our work as auditors was confined to checking the management report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of the Company.

ARTHUR ANDERSEN

Manuel del Olmo

March 15th, 2000

**Report of the Statutory Auditors of Construcciones Aeronáuticas, S.A. (CASA)
on the CASA Unaudited Pro Forma Financial Information
included in the EADS Unaudited Pro Forma Combining Financial Information
and on the CASA Unaudited Reconciliation of Historical and Pro Forma Net
Income and Stockholders' Equity from Spanish GAAP to IAS**

Addressee: CASA Board of Directors

You have requested us to examine:

1. the unaudited pro forma income statements of CASA for each of the twelve-month periods ended December 31, 1999, 1998 and 1997, the unaudited pro forma balance sheets of CASA as of December 31, 1999 and 1998 and the unaudited pro forma statement of cash flows of CASA for the twelve-month period ended December 31, 1999, which are included under the heading 'CASA' in the EADS Unaudited Pro Forma Combining Financial Information on pages 111 to 116 of the COB document ("the CASA unaudited financial statements data");
2. the CASA unaudited reconciliation of Historical Net Income and Stockholders' equity from Spanish GAAP to IAS respectively for each of the twelve-month periods ended 1999, 1998 and 1997 and as of December 31, 1999 and 1998, which are included under the heading "CASA Unaudited Reconciliation from Historical Spanish GAAP to IAS" on page 141 of this COB document together with the "Summary of Differences Between CASA Accounting Principles, IAS and U.S. GAAP" included on pages 141 and 142 of this COB document (together "the CASA unaudited reconciliation data").

The CASA unaudited financial statements data and CASA reconciliation data are together herein referred to as the CASA unaudited historical and pro forma financial data. Such CASA unaudited historical and pro forma financial data have been prepared in connection with the contemplated creation of EADS as a result of which CASA operations are to be contributed to EADS together with operations contributed by DASA and ASM.

These CASA unaudited historical and pro forma financial data are the responsibility of the Board of Directors of CASA and have been prepared on April 14, 2000 based on the financial statements of CASA as of and for the twelve-month periods ended December 31, 1999, 1998 and 1997 which were prepared under Spanish GAAP and which we have audited in accordance with Spanish professional standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Our reports with respect thereto were unqualified.

The accounting principles adjustments ("the GAAP difference adjustments") and reclassifications applied by CASA management to prepare the 1999, 1998 and 1997 CASA unaudited historical and pro forma financial data have been selected to comply with IAS issued and effective for the twelve-month period ended December 31, 1999.

The nature and extent of the examination procedures carried out with respect to the CASA unaudited historical and pro forma financial data have been agreed upon with the management of EADS and CASA, as reported below, together with our related findings in connection with the CASA unaudited financial statements data, the CASA unaudited historical reconciliation data and the CASA unaudited pro forma reconciliation data.

With respect to the accounting principles adjustments and reclassifications applied to the historical financial statements data of CASA, we have:

- compared the historical euros amounts of the CASA balance sheet, income statement and cash flows statement items, as applicable, to the corresponding amounts in their respective audited financial statements taking into account the reclassifications applied to reflect revenues and expenses of CASA under a "cost of sales presentation";
- compared the euros amounts of the CASA reclassifications applied to the historical financial statement items of CASA to the CASA accounting records to the extent such reclassification amounts could be so compared directly;
- compared the euros amounts of the CASA reclassifications applied to the historical financial statement items of CASA analyses prepared by CASA from CASA accounting records to the extent such reclassification amounts could not be compared directly to such accounting records;
- read the "Summary of Differences Between CASA Accounting Principles, IAS and U.S. GAAP" ("the GAAP Differences Summary") in conjunction with the description of accounting principles and policies of CASA as stated in the audited historical financial statements in 1999, 1998 and 1997, as applicable, and inquired of

financial and accounting officials of CASA whether such GAAP Differences Summary reflects all significant differences between IAS issued and effective for a 1999 year-end closing as they applied to the historical net income and stockholders' equity of CASA as applicable and for the periods presented;

- compared the euros amounts of the GAAP difference adjustments as identified in the “Summary of Differences Between CASA Accounting Principles, IAS and U.S. GAAP”, to the extent they relate to IAS/CASA accounting principles differences only, to the CASA accounting records to the extent such amounts could be so compared directly and to amounts in accounting analyses prepared by CASA from CASA accounting records to the extent such GAAP difference adjustments could not be compared directly to such accounting records.

The objective of pro forma financial statements is to show what the significant effects on the historical financial information might have been had a given transaction or event occurred at an earlier date than the date at which such transaction or event occurred or is reasonably expected to occur. However, pro forma financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had this given transaction or event occurred at an earlier date than the date at which such transaction or event occurred or is reasonably expected to occur.

Based on the above described agreed upon procedures, we have no specific findings to report on the CASA unaudited historical and pro forma financial data.

As a reminder, the foregoing agreed upon procedures do not constitute an audit conducted in accordance with generally accepted auditing standards in Spain and accordingly we do not express an opinion on the CASA unaudited historical and pro forma financial data.

The Statutory Auditors

Arthur Andersen

Manuel del Olmo

May 12, 2000

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