First Half-year 2006 Report

Unaudited Condensed Consolidated Financial Information of EADS N.V. for the first half-year of 2006

Unaudited Condensed IFRS Consolidated Income Statements

	January 1 - June 30, 2006		January 1 - June 30, 2005		Deviation	
	M €	%	M €	%	M €	%
Revenues	18,980	100	16,020	100	2,960	18
Cost of sales	-15,374	-81	-12,739	-80	-2,635	21
Gross margin	**3,606**	**19**	**3,281**	**20**	**325**	**10**
Selling, administrative & other expenses	-1,132	-6	-1,079	-7	-53	5
Research and development expenses	-1,139	-6	-950	-6	-189	20
Other income	196	1	91	1	105	115
Share of profit from associates and other income from	69	0	133	1	-64	-48
Profit before finance costs and income taxes	**1,600**	**8**	**1,476**	**9**	**124**	**8**
Finance (costs) income	-145	0	26	0	-171	-658
Income taxes	-431	-2	-511	-3	80	-16
Profit for the period	**1,024**	**6**	**991**	**6**	**33**	**3**
Attributable to:						
Equity holders of the parent **(Net income) *)**	**1,043**	**5**	**992**	**6**	**51**	**5**
Minority interests *)	-19	0	-1	0	-18	---
Earnings per share	€		€		€	
Basic *)	1.31		1.25		0.06	
Diluted *)	1.29		1.24		0.05	

*) For retrospective adjustments concerning first half-year 2005 please refer to Note 2 “Accounting policies”.

Unaudited Condensed IFRS Consolidated Income Statements for the second quarter 2006 and 2005

	April 1 - June 30, 2006		April 1 - June 30, 2005		Deviation	
	M €	%	M €	%	M €	%
Revenues	9,897	100	9,015	100	882	10
Cost of sales	-7,984	-81	-7,210	-80	-774	11
Gross margin	**1,913**	**19**	**1,805**	**20**	**108**	**6**
Selling, administrative & other expenses	-557	-6	-544	-6	-13	2
Research and development expenses	-603	-6	-528	-6	-75	14
Other income	40	0	53	0	-13	-25
Share of profit from associates and other income from investments	44	1	66	1	-22	-33
Profit before finance costs and income taxes	**837**	**8**	**852**	**9**	**-15**	**-2**
Finance (costs) income	-83	-1	28	0	-111	-396
Income taxes	-221	-2	-299	-3	78	-26
Profit for the period	**533**	**5**	**581**	**6**	**-48**	**-8**
Attributable to:						
Equity holders of the parent (Net income) *)	**527**	**5**	**582**	**6**	**-55**	**-9**
Minority interests	6	0	-1	0	7	-700

Earnings per share	€	€	€
Basic*)	0.66	0.73	-0.07
Diluted *)	0.65	0.73	-0.08

*) For retrospective adjustments concerning second quarter 2005 please refer to Note 2 “Accounting policies”.

Unaudited Condensed IFRS Consolidated Balance Sheets

	June 30, 2006		December 31, 2005		Deviation	
	M €	%	M €	%	M €	%
Non-current assets						
Intangible assets	10,573	15	11,052	16	-479	-4
Property, Plant and Equipment	13,819	19	13,951	19	-132	-1
Investments in associates	1,908	3	1,908	3	0	0
Other investments and long-term financial assets	1,774	2	1,938	3	-164	-8
Non-current other assets	4,174	6	3,610	5	564	16
Deferred tax assets	2,314	3	2,557	4	-243	-10
Non-current securities	1,342	2	1,011	1	331	33
	35,904	50	36,027	51	-123	0
Current assets						
Inventories	17,054	24	15,425	22	1,629	11
Trade receivables	4,117	6	4,802	7	-685	-14
Other current assets	4,814	7	3,675	5	1,139	31
Current securities	23	0	29	0	-6	-21
Cash and cash equivalents	9,307	13	9,546	14	-239	-3
	35,315	50	33,477	48	1,838	5
Non-current assets classified as held for sale	0	0	881	1	-881	-100
Total assets	**71,219**	**100**	**70,385**	**100**	**834**	**1**
Total equity						
Equity attributtable to equity holders of the parent						
Capital Stock	822	1	818	1	4	0
Reserves	9,992	14	9,371	13	621	7
Accumulated other comprehensive income	4,883	7	3,982	6	901	23
Treasury shares	-486	0	-445	0	-41	9
	15,211	22	13,726	20	1,485	11
Minority interests	161	0	176	0	-15	-9
	15,372	22	13,902	20	1,470	11
Non-current liabilities						
Non-current provisions	6,340	9	6,879	10	-539	-8
Long-term financial liabilities	3,836	5	4,189	6	-353	-8
Deferred tax liabilities	2,950	4	2,376	3	574	24
Other non-current liabilities	11,395	16	11,295	16	100	1
	24,521	34	24,739	35	-218	-1
Current liabilities						
Current provisions	2,464	4	2,727	4	-263	-10
Short-term financial liabilities	1,585	2	908	1	677	75
Liability for puttable instruments	2,750	4	3,500	5	-750	-21
Trade liabilities	6,693	9	6,634	10	59	1
Current tax liabilities	247	0	174	0	73	42
Other current liabilities	17,587	25	17,739	25	-152	-1
	31,326	44	31,682	45	-356	-1
Liabilities directly associated with non-current assets classified as held for sale	0	0	62	0	-62	-100
Total equity and liabilities	**71,219**	**100**	**70,385**	**100**	**834**	**1**

Unaudited Condensed IFRS Consolidated Cash Flow Statements

	January 1 - June 30, 2006	January 1 - June 30, 2005
	M €	M €
Profit for the period attributable to equity holders of the parent **(Net income)** *)	**1,043**	**992**
Loss attributable to minority interests *)	-19	-1
Adjustments to reconcile profit for the period (net income) to cash provided by operating activities:		
Depreciation and amortization	805	764
Valuation adjustments and CTA release	68	-33
Change in deferred taxes	216	-58
Results on disposal of non-current assets	-271	-50
Results of companies accounted for by the equity method	-48	-123
Change in current and non-current provisions and current tax assets / liabilities	8	426
Change in other operating assets and liabilities	-1,219	849
Cash provided by operating activities	**583**	**2,766**
- Purchase of intangible assets, PPE	-1,118	-1,198
- Proceeds from disposals of intangible assets, PPE	72	42
- Acquisitions of subsidiaries (net of cash)	-20	-2
- Proceeds from disposals of subsidiaries (net of cash)	81	65
- Payments for investments in associates and other investments and long-term financial assets	-91	-261
- Proceeds from disposals of associates and other investments and long-term financial assets	505	206
- Dividends paid by companies valued at equity	46	36
- Increase in equipment of leased assets	-6	-28
- Proceeds from disposals of leased assets	23	123
- Increase in finance lease receivables	-5	-206
- Decrease in finance lease receivables	35	38
Disposals of non-current assets classified as held for sale	214	0
Change of securities	-330	-162
Change in cash from changes in consolidation	0	11
Cash used for investing activities	**-594**	**-1,336**
Change in long-term and short-term financial liabilities	405	359
Cash distribution to EADS N.V. shareholders	-520	-402
Payments related to liability for puttable instruments	-129	-93
Capital increase	82	15
Purchase of treasury shares	-41	-205
Cash used for financing activities	**-203**	**-326**
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents	-25	14
Net (decrease) increase in cash and cash equivalents	**-239**	**1,118**
Cash and cash equivalents at beginning of period	**9,546**	**8,718**
Cash and cash equivalents at end of period	**9,307**	**9,836**

*) For retrospective adjustments concerning first half-year 2005 please refer to Note 2 “Accounting policies”.

As of June 30th, 2006, EADS’ cash position (stated as cash and cash equivalents at end of period in the unaudited condensed consolidated cash flow statements) includes 1,214 M € (1,202 M € as of December 31st, 2005) representing the amount Airbus has deposited at BAE Systems. Additionally included are 563 M € (579 M € as of December 31st, 2005), which represent EADS’ share in MBDA’s cash and cash equivalents, deposited at BAE Systems and Finmeccanica. These funds are available for EADS upon demand or are to be reimbursed at transaction date for the Airbus share when the shareholders of BAE Systems approve the sale of their 20 % stake in Airbus (see Note 14 "Subsequent events").

Unaudited Condensed IFRS Consolidated Statements of Changes in equity attributable to equity holders of the parent and minority interests

in M €	Equity attributable to equity holders of the parent	Minority interests	Total equity
Balance at January 1, 2006	**13,726**	**176**	**13,902**
Capital Increase	82		82
Profit for the period	1,043	-19	1,024
Cash distribution to shareholders	-520		-520
OCI	901		901
Purchases of treasury shares	-41		-41
Others	20	4	24
Balance at June 30, 2006	**15,211**	**161**	**15,372**
Balance at January 1, 2005, adjusted	**16,210**	**144**	**16,354**
Capital Increase	15		15
Profit for the period *)	992	-1	991
Cash distribution to shareholders	-402		-402
OCI *)	-2,668		-2,668
Purchases of treasury shares	-205		-205
Others	21		21
Balance at June 30, 2005	**13,963**	**143**	**14,106**

*) For retrospective adjustments concerning first half-year 2005 please refer to Note 2 "Accounting policies".

Explanations to the Unaudited Condensed IFRS Consolidated Financial Statements as at June 30th, 2006

1. The Company

The accompanying Condensed Interim Consolidated Financial Statements (unaudited) present the operations of European Aeronautic Defence and Space Company EADS N.V. and its subsidiaries ("EADS" or the "Group"), a Dutch public limited liability company (Naamloze Vennootschap) legally seated in Amsterdam (Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, The Netherlands), and are prepared and reported in Euros ("€"). EADS' core business is the manufacturing of commercial aircraft, civil and military helicopters, commercial space launch vehicles, missiles, military aircraft, satellites, defence systems and defence electronics and rendering of services related to these activities.

2. Accounting policies

These Condensed Interim Consolidated Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". EADS' Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted by the International Accounting Standards Board ("IASB") as endorsed by the European Union (EU). They comprise (i) IFRS, (ii) International Accounting Standards ("IAS") and (iii) Interpretations originated by the International Financial Reporting Interpretations Committee (“IFRIC”) or former Standards Interpretation Committee (“SIC”).

As of January 1st, 2006, EADS adopted the following amendments to existing Standards, new Standards and new Interpretations as required by the following announcements released by the IASB in December 2004 and throughout 2005:

EADS applies new IFRS 6 “Exploration for and Evaluation of Mineral Resources” and two amendments to IAS 39 “Financial Instruments: Recognition and Measurement”: “Fair Value Option” (June 2005) and “Financial Guarantee Contracts” (August 2005) with the latter also amending IFRS 4. Furthermore, EADS applies new Interpretations IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds” and IFRIC 6 “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment”.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement

(i) Fair Value Option (June 2005): The amendment limits the use of the fair value option to those financial instruments that meet one of the following conditions: a) fair value option designation eliminates or significantly reduces an accounting mismatch (i.e. natural hedging relationship); **or** b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy. Furthermore, the fair value option can generally be elected to be applied in case of embedded derivatives to an entire hybrid contract. EADS currently applies the fair value option for securities / accumulated funds only (Money Market Funds).

(ii) Financial Guarantee Contracts (August 2005): The scope of IAS 39 has been widened to include financial guarantee contracts issued. In case an issuer of such contracts has previously asserted that it regards financial guarantee contracts as insurance contracts and accounted for them accordingly, the issuer may elect to apply either IFRS 4 or IAS 39 to financial guarantee contracts. The issuer can perform the election contract by contract but the election for each contract remains irrevocable.

The application of the amendments to existing Standards, new Standards and new Interpretations mentioned above has no major impact on the Condensed Interim Consolidated Financial Statements.

Besides consequential changes as mentioned above, the accounting policies used in the preparation of the Condensed Interim Consolidated Financial Statements are consistent with those used for the annual Consolidated Financial Statements for the year ended December 31st, 2005 which are disclosed as an integral part of the Group’s Annual Report 2005. The annual Consolidated Financial Statements were authorised for issue by EADS’ Board of Directors on March 7th, 2006.

The application of the following standard in 2005 led to retrospective adjustments in the Consolidated Income and Cash Flow Statements as well as in the Statement of changes in equity for the prior period presented:

IAS 32 Financial Instruments: Disclosure and Presentation (revised 2004) — Since January 1st, 2005, EADS applies revised IAS 32 “Financial Instruments: Disclosure and Presentation” (revised 2004). Amongst others, revised IAS 32 provides modified guidance whether a share in an entity should be classified as equity or as financial liability. Under certain circumstances, an entity shall record a financial liability rather than an equity instrument for the exercise price of a written put on the entity’s equity.

As part of the Airbus business combination in 2001, the option granted to BAE Systems to put its 20% stake in Airbus to EADS is such a written put option. EADS has the obligation to purchase these minority shares whenever the minority shareholder requests it, limited to a revolving yearly window period for an amount equal to the fair value of the shares at the time the option is exercised, to be paid in cash or an equivalent amount of EADS shares (please refer to Note 14 “Subsequent events”). Following revised IAS 32 and despite BAE Systems (legal) minority rights in Airbus, the related interest has been recognized as financial liability in the EADS Consolidated Financial Statements, stated at fair value and presented in a separate line of the EADS Consolidated Balance Sheet as “Liability for puttable instruments”. The fair value at June 30, 2006 has been assessed by reference to the determination provided by an independent third party valuation expert (please refer to Note 7 “Significant balance sheet items” and Note 14 “Subsequent events”). Previous estimations of the fair value had been evaluated by applying a choice of different valuation techniques, based on best estimates available.

Following IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, the adoption of revised IAS 32 has been treated as a change in accounting policy firstly effecting EADS’ Consolidated Financial Statements as of December 31st, 2005 with corresponding adjustments to prior period presented. The historical minority interests for BAE Systems’ 20% stake in Airbus at the time of the business combination in 2001 had been replaced by the posting of a liability for puttable instruments, the difference between those two amounts being accounted for against consolidated total equity.

Prior and current years dividend payments to BAE Systems have been treated as partial repayments, thus consequently reducing the liability for puttable instruments. All fair value changes are treated as contingent consideration in a business combination in accordance with IFRS 3 “Business Combinations” until settlement and led to adjustments of goodwill. (For the effect on previous year figures and the impact on earnings per share, please refer to Note 6, 7 and 11).

3. Changes in the consolidation perimeter of EADS

On February 28th, 2006, LFK GmbH and TDW GmbH, which were fully consolidated by EADS, have been sold to the European Missile Group MBDA. MBDA is jointly owned by BAE Systems (37.5 %), EADS (37.5 %) and Finmeccanica (25 %). In EADS consolidated financial statements, MBDA Group is proportionately consolidated with 50 %.

Apart from these transactions, other acquisitions or disposals performed by the Group in the first half-year 2006 are not material to the unaudited Interim Condensed Consolidated Financial Statements.

4. Segment information

The Group operates in five divisions (segments) which reflect the internal organizational and management structure according to the nature of the products and services provided. Following changes in the EADS structure, the *Aeronautics* Division was dissolved end of June 2005 and split into *Eurocopter* Division and *Other Businesses*. Segment figures have been restated in accordance with this new structure.

- *Airbus* — Development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats and the development and manufacturing of aircraft for military use.
- *Military Transport Aircraft* — Development, manufacturing, marketing and sale of military transport aircraft and special mission aircraft.

- *Eurocopter* — Development, manufacturing, marketing and sale of civil and military helicopters and maintenance services.
- *Defence & Security Systems* — Development, manufacturing, marketing and sale of missiles systems; military combat and training aircraft; provision of defence electronics, defence-related telecommunications solutions; and logistics, training, testing, engineering and other related services.
- *Space* — Development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers; and provision of space services.

The following table presents information with respect to the Group's business segments. Consolidation effects, the holding functions of EADS Headquarters and other activities not allocable to the divisions are disclosed in the column "HQ/ Conso.". "Other Businesses" comprises the development, manufacturing, marketing and sale of regional turboprop aircraft and light commercial aircraft, aircraft components as well as civil and military aircraft conversion and maintenance services.

in M €	Airbus	Military Transport Aircraft	Eurocopter	Defence & Security Systems	Space	Other Businesses	HQ/ Conso.	**Consoli-dated**
Six months ended June 30, 2006								
Revenues	13,154	1,244	1,473	2,274	1,273	660	-1,098	**18,980**
Research and development expenses	-952	-8	-35	-91	-31	-3	-19	**-1,139**
EBIT pre goodwill imp. and exceptionals (see definition below)	1,491	6	84	96	36	-143	62	**1,632**
Six months ended June 30, 2005								
Revenues	11,262	326	1,266	2,172	1,160	528	-694	**16,020**
Research and development expenses	-782	-11	-31	-82	-24	-4	-16	**-950**
EBIT pre goodwill imp. and exceptionals (see definition below)	1,444	-14	60	-19	7	-44	106	**1,540**

5. EBIT pre goodwill impairment and exceptionals

EADS uses EBIT pre goodwill impairment and exceptionals as a key indicator of its economic performance. The term "exceptionals" refers to such items as depreciation expenses of fair value adjustments relating to the EADS merger, the Airbus combination and the formation of MBDA, as well as impairment charges thereon. EBIT pre goodwill impairment and exceptionals is treated by management as a key indicator to measure the segments' economic performances.

A reconciliation from Profit before finance costs and income taxes to EBIT pre goodwill impairment and exceptionals is set forth in the following table (in M €):

in M €	January 1-June 30, 2006	January 1-June 30, 2005
Profit before finance costs and income taxes	**1,600**	**1,476**
Fair value adjustments	32	64
EBIT pre goodwill impairment and exceptionals	**1,632**	**1,540**

6. Significant income statement items

Revenues of 18,980 M € (first half-year 2005: 16,020 M €) increase by 18 % contributed by all divisions, mostly by Airbus, MTA and Eurocopter.

The **Gross Margin** increases by +325 M € to 3,606 M € compared to 3,281 M € in the first half-year 2005. The increase mainly results from Airbus, Eurocopter, Defence & Security Systems and Space. On the basis of the financial terms of the Group TAT proposal, EADS has performed an impairment test of the Sogerma related assets and has accounted for an impairment charge of 117 M € against specific property, plant and equipment as well as inventories.

Research and development expenses of 1,139 M € (first half-year 2005: 950 M €) mainly increase because of the A350 program and to a lower extent due to the A380 program. Moreover, EADS capitalized 145 M € of development costs for A380 in the first half-year 2006 (in the first half-year 2005: 114 M €).

Other income increases by +105 M € to 196 M €, due to the gain of 106 M € as a result of the sale of LFK GmbH and TDW GmbH to MBDA Group.

Share of profit from associates and other income from investments of 69 M € (first half-year 2005: 133 M €) is mainly influenced by the result of Dassault Aviation of 48 M € (first half-year 2005: 121 M €), which represents the best estimate based on the most recent available half-year financial statements of Dassault. The result in the first half-year 2005 of Dassault additionally included positive 2004 catch up adjustments amounting to +64 M €.

Finance costs deteriorate to -145 M € (first half-year 2005: +26 M €) mainly due to negative effects from foreign exchange rate revaluations on US dollar-cash balance. These effects are partly offset by a lower net interest charge of -56 M € (first half-year 2005: -77 M €), mainly due to a higher net cash position at Airbus.

Income taxes of -431 M € (first half-year 2005: -511 M €) result in an effective income tax rate of 30 % (first half-year 2005: 34 %), positively impacted by a tax-free gain from the sale of LFK GmbH and TDW GmbH to MBDA Group.

Loss for the period attributable to minority interests of -19 M € (first half-year 2005: -1 M €) mainly relates to a consolidation impact of the sale of LFK GmbH and TDW GmbH to the MBDA Group.

Profit for the period attributable to equity holders of the parent (Net income) amounts to 1,043 M € (first half-year 2005: 992 M €). The profit for the first half-year 2005 was adjusted due to the retrospective application of revised IAS 32 by an amount of +176 M €.

7. Significant balance sheet items

Non-current assets

Intangible assets of 10,573 M € (prior year: 11,052 M €) include 9,550 M € (prior year: 10,167 M €) of goodwill. It mainly stems from Airbus (6,366 M €), Defence & Security Systems (2,473 M €), Space (559 M €) and Eurocopter (111 M €). An impairment test was performed for Airbus goodwill on the basis of the purchase price of 2,750 M € for BAE Systems' stake in Airbus, determined by the investment bank Rothschild, which did not lead to an impairment.

Eliminating foreign exchange-rate effects of -163 M €, **property, plant and equipment** increase by +31 M € to 13,819 M € (prior year: 13,951 M €), including leased assets of 2,109 M €. The biggest increase comes from Space (+148 M €), partly offset by a decrease in Airbus Division (-74 M €) and Other Businesses (-56 M €). Property, plant and equipment comprises "Investment property" amounting to 125 M € (prior year: 134 M €).

Investments in associates of 1,908 M € (prior year: 1,908 M €) mainly comprise the equity investment in Dassault Aviation, amounting to 1,869 M € (prior year: 1,867 M €).

Other investments and long-term financial assets of 1,774 M € (prior year: 1,938 M €) are allocated to Airbus in the amount of 1,053 M € (prior year: 1,242 M €), mainly concerning the non-current portion of aircraft financing activities with a foreign exchange-rate effect of -74 M €.

Non-current other assets mainly comprise "Non-current financial instruments" and "Non-current prepaid expenses". The increase by 564 M € to 4,174 M € (prior year: 3,610 M €) is mainly caused by the variation of the non-current portion of fair values of financial instruments. Non-current prepaid expenses increase by +19 M €.

Deferred tax assets of 2,314 M € (prior year: 2,557 M €) are presented as non-current assets as required by IAS 1.

The fair values of **financial instruments** are included in non-current other assets with an amount of 3,309 M € (prior year: 2,762 M €), in current other assets (1,831 M €, prior year: 1,191 M €), in non-current provisions (252 M €, prior year: 472 M €) and in current provisions (154 M €, prior year: 449 M €), which corresponds to a net positive fair value of 4,734 M € (prior year: 3,032 M €). The volume of hedged US dollar-contracts has risen from 47.1 billion US dollar to 50.0 billion US dollar and the US dollar exchange rate became less favourable (USD / € spot rate of 1.27 at June 30th, 2006 vs. 1.18 at December 31st, 2005). The average US dollar hedged rate for the hedge portfolio of the Group as at June 30th, 2006 moved from 1.12 as at December 31st, 2005 to 1.15 as at June 30th, 2006 (US dollar / € rate respectively).

Current assets

Inventories of 17,054 M € (prior year: 15,425 M €) increase by 1,629 M € in all divisions except for Military Transport. This is mainly driven by a higher level of unfinished goods and services in Airbus (mainly for A380 (+883 M €)), the progress of several serial production programs in Eurocopter (+367 M €) and Defence (+128 M €). Military Transport decreased mainly due to achievement of Milestones concerning the A400 M program.

The decrease in **trade receivables** by -685 M € to 4,117 M € (prior year: 4,802 M €) comes to a large extent from Space (-434 M€), Defence (-178 M €) and Eurocopter (-158 M €), partly offset by Airbus (+121 M €).

Other current assets include "Current portion of long-term financial assets", "Current other assets", "Current tax assets" and "Current prepaid expenses". The increase of 1,139 M € to 4,814 M € (prior year: 3,675 M €) is caused in the amount of +640 M € by the variation of the current portion of fair values of financial instruments (see "Financial instruments" under "Non-current assets"). Moreover, an increase of +484 M € comes from an escrow account, reflecting sales financing activities in Airbus previously reported as **non-current assets classified as held for sale** (0 M € as of June 30th , 2006; prior period: 881 M €).

Cash and cash equivalents decrease from 9,546 M € to 9,307 M €.

Total equity

Equity attributable to equity holders of the parent (including treasury shares) amounts to 15,211 M € (prior year: 13,726 M €), the increase mainly results from the profit for the period (Net income) of +1,043 M € and an increase in OCI of +901 M €, primarily resulting from changes in fair values as well as consumption of derivative financial instruments, offset by a cash distribution to shareholders of -520 M €.

Minority interests of 161 M € (prior year: 176 M €) mainly represent shares of Finmeccanica in MBDA. According to revised IAS 32, minority interests for BAE Systems' share in Airbus are shown as "Liability for puttable instruments" (please refer to Note 2 "Accounting policies").

Non-current liabilities

Non-current provisions of 6,340 M € (prior year: 6,879 M €) comprise the non-current portions of pension provisions with a decrease of -79 M € to 3,821 M €, resulting from a cash contribution to the EADS Deutschland GmbH pension fund, and other provisions, decreasing by -460 M € to 2,519 M €. Other provisions include among others aircraft financing activities with a decrease of -135 M € (thereof foreign exchange rate effect of -86 M €) to 1,018 M € and provisions for derivative financial instruments according to IAS 39 with a decrease of -220 M € to 252 M €.

Long-term financial liabilities of 3,836 M € (prior year: 4,189 M €), excluding foreign exchange-rate effects of -128 M €, decrease by -225 M €.

Deferred tax liabilities of 2,950 M € (prior year: 2,376 M €) are significantly influenced by the decrease in the fair value of financial instruments. They are defined as non-current liabilities.

Other non-current liabilities comprise "Non-current other liabilities" and "Non-current deferred income" and slightly increase by +100 M € to 11,395 M € (prior year: 11,295 M €). They mainly include the non-current portion of European Government refundable advances amounting to 5,138 M € (prior year: 4,950 M €) and non-current customer advance payments received of 4,803 M € (prior year: 4,911 M €). The main part of non-current deferred income of 1,229 M € (prior year: 1,324 M €) is linked to restated revenues of Airbus and ATR according to RVG clauses. The remaining portfolio, which is included in non-current deferred income is depreciated over the window period.

Current liabilities

Current provisions decrease by -263 M € to 2,464 M € (prior year: 2,727 M €) and comprise the current portions of pensions (207 M €, prior year: 220 M €) and other provisions (2,257 M €, prior period: 2,507 M €). The decrease reflects the revaluation of derivative financial instruments according to IAS 39 (-295 M €). **Short-term financial liabilities** of 1,585 M € (prior year: 908 M €) increase by +677 M €, mainly due to the issue of commercial papers with an amount of 746 M €.

EADS has adopted in 2005 revised IAS 32 and accounts for a **liability for puttable instruments** for the 20 % interest of BAE Systems in Airbus. This liability was stated at fair value of 3,500 M€ as at December 31st, 2005. In the course of the exercised put option by BAE Systems, a third party investment bank has determined on July 2nd, 2006, that the price to be paid by EADS is 2,750 M€. Considering, that Airbus had paid a dividend of 129 M€ to BAE Systems during the first half of 2006, the liability was adjusted accordingly. (Please also refer to Note 14 "Subsequent events".)

Trade liabilities increase by +59 M € to 6,693 M € (prior year: 6,634 M €).

Other current liabilities include "Current other liabilities" and "Current deferred income". They decrease by -152 M € to 17,587 M € (prior year: 17,739 M €). Other current liabilities mainly comprise the current portion of customer advance payments of 14,444 M € (prior year: 14,078 M €).

8. Significant cash flow items

Cash provided by operating activities amounts to 583 M € (first half-year 2005: 2,766 M €). This reflects a negative variation in working capital (change in other operating assets and liabilities) of -1,219 M € (first half-year 2005: positive variation of +849 M €), mainly resulting from lower contributions from received customer advance payments compared to the previous period.

Cash used for investing activities improves by +742 M € to -594 M € (first half-year 2005: -1,336 M €). The outflow is mainly caused by Airbus and Skynet V activities, partly offset by positive effects from customer financing selldown operations at Airbus.

Cash used for financing activities results to -203 M € (first half-year 2005: -326 M €). The outflow contains cash distributions to EADS NV shareholders (-520 M €) and BAE Systems (-129 M €), partly offset by drawdowns on financial liabilities of +405 M €.

9. Contingencies

Pension commitments - EADS has several common investments with BAES, of which the most significant in terms of employees are Airbus and MBDA. In respect of each investment, UK employees may stay in the BAES pensions schemes, which currently qualify as multi-employer defined benefit plans. BAES is applying IFRS as of January 1st, 2005. In accordance with IAS 19, BAES has disclosed for its UK defined pension schemes a net (pre tax) pension liability as of December 31st, 2005 in a total amount of 4,659 M GBP. As participants in the BAES schemes, EADS investments are potentially affected by any shortfall of BAES schemes. However, the agreements between EADS and BAES have the effect of capping the contributions that the investment has to make to the pension scheme for a certain period of time (until July 2011 for Airbus and until December 2007 for MBDA). Any additional contribution would be paid by BAES. EADS is therefore not exposed to increased contribution payments resulting from the pension underfunding during the period of the contribution caps. EADS has requested detailed information about these pension schemes. Based on limited information made available, EADS has judged this information not to be sufficient to properly allocate the pension plans' deficit and is therefore not able to reliably determine its participation in any potential future deficit once the period of contribution caps will have expired. Consequently, EADS continues to expense the contributions made to the pension schemes as if the plans were defined contribution plans.

10. Number of shares

The total number of shares outstanding is 800,081,334 and 791,270,277 as of June 30th, 2006 and 2005, respectively. EADS' shares are exclusively ordinary shares with a par value of 1.00 €.

During the first half-year 2006, the number of own shares hold by EADS increased from 20,602,704 as of December 31st, 2005 to 21,779,736 as of June 30th, 2006.

4,117,940 new shares (first half-year 2005: 797,306 shares) were issued as a result of the exercise of stock options in compliance with the implemented stock option plans.

11. Earnings per share

The net income for the first half-year 2005 was adjusted due to retrospective application of revised IAS 32 in 2005 with an amount of +176 M € representing minority interests of 20 % of Airbus (please refer to Note 2 "Accounting policies").

Basic earnings per share are calculated by dividing profit for the period attributable to equity holders of the parent (Net income) by the weighted average number of issued ordinary shares during the period, excluding ordinary shares purchased by the Group and held as treasury shares:

	January 1 to June 30, 2006	January 1 to June 30, 2005
Net income attributable to shareholders	1,043 M €	992 M €
Weighted average number of ordinary shares outstanding	798,747,495	794,012,149
Basic earnings per share	1.31 €	1.25 €

The effect from the retrospective application of IAS 32 (revised) on basic earnings per share amounts to an increase of 0.22 € in the first half-year 2005.

For calculation of the **diluted earnings per share**, the weighted average number of ordinary shares is adjusted to assume conversion of all potential ordinary shares. The Group's only category of dilutive potential ordinary shares is stock options. Since the average price of EADS shares of the first half-year 2006 exceeded the exercise price of the stock options under the 1st, 2nd, 3rd, 4th, 5th and 6th stock option plans (in the first half-year 2005: 1st, 2nd, 4th and 5th stock option plan) initiated by the Group, the inclusion of the related potential ordinary shares increases the weighted average number of shares. 6,810,912 shares (first half-year 2005: 4,595,260 shares) are considered dilutive according to IAS 33.

	January 1 to June 30, 2006	January 1 to June 30, 2005
Net income attributable to shareholders	1,043 M €	992 M €
Weighted average number of ordinary shares outstanding (diluted)	805,558,407	798,607,409
Diluted earnings per share	1.29 €	1.24 €

The effect from the retrospective application of IAS 32 (revised) on diluted earnings per share amounts to an increase of 0.22 € in the first half-year 2005.

12. Related party transactions

The Group has entered into various transactions with related companies in the first half-year 2006 and 2005 that have all been carried out in the normal course of business. As is the Group's policy, all related party transactions have to be carried out at arm's length. Transactions with related parties include the French State, DaimlerChrysler, Lagardère, and SEPI (Spanish State). Except for the transactions with the French State, such transactions are not considered material to the Group either individually or in the aggregate. The transactions with the French State include mainly sales from the Eurocopter, Defence & Security Systems and Space divisions.

13. Number of employees

The number of employees at June 30th, 2006 is 115,247 as compared to 113,210 at December 31st, 2005.

14. Subsequent events

A350 / A380 - On October 6, 2005, the EADS Board of Directors authorised the go-ahead for Airbus to launch the industrial program for a new A350 aircraft family. This go-ahead together with that received from BAE Systems, enabled Airbus to launch the program. On July 17, 2006 and following customers' recommendations, Airbus presented a revised aircraft family, the A350 XWB, intended to replace the A350 industrial program started last year. It is anticipated that Airbus will ask its shareholders EADS and BAE Systems for authorisation to launch the A350 XWB industrial program around October 2006. Until then, Airbus will be assessing the potential financial impacts of the replacement.

Following the revised Airbus A380 delivery schedule, a detailed review of the A380 production and delivery program is currently being implemented by the new Airbus CEO complemented by a EADS review team. This includes the assessment on other aircraft programs, especially A 400 M. The A 380 program review also considers the assessment of customers and suppliers claims.

Because no decision to launch a new A350 aircraft family has been taken yet and the conclusion of the program reviews are not known to date, these Condensed Interim Financial Statements are not impacted by the presentation of the revised aircraft family and by the reviews of the A380 and other aircraft programs production processes.

Sogerma – On May, 12 2006, the Board of Directors decided to cease the EADS activities of Sogerma Services in Bordeaux Mérignac. In July 2006, EADS has chosen to exclusively negotiate with the TAT Group a solution for its industrial activities in Mérignac. The solution includes the sale of Sogerma's maintenance activities and enables the majority of the concerned employees to continue to work on the Mérignac site. The TAT Group has committed itself to retain approximately 500 employees to work in the maintenance business. EADS would keep Sogerma's aerostructure activities, which would retain and secure eventually 150 workplaces in Mérignac. In addition, EADS has proposed in July a mobility initiative and an early retirement plan as an offer to Sogerma's employees. As the communication process to the workers council took place after the balance sheet date, these Condensed Interim Financial Statements are not impacted by restructuring expenses, warranties and social package expenses.

Put option BAE Systems - EADS had recognised BAE Systems' put option regarding its 20% stake in Airbus with its fair value (3,500 M € at March 31, 2006 and December 31, 2005, respectively) as liability for puttable instruments in the EADS Consolidated Balance Sheet.

BAE Systems exercised the put option on June 7, 2006. In accordance with the Airbus Shareholders' Agreement, an independent investment bank was appointed by EADS and BAE Systems to determine the price in the absence of an agreement between the two parties. On July 2, 2006, the bank has determined the price to be 2,750 M €. The transaction remains subject to BAE Systems' shareholders' approval.

As the transaction price has been determined by an independent third party and close to June 30, 2006, EADS has adjusted the liability for puttable instruments to an amount of 2,750 M € accordingly. The reduction of the liability's fair value led to a credit against goodwill of 621 M € after a partial repayment of the liability through a dividend distribution of 129 M € to BAE Systems in June 2006.