

First quarter 2006 Report

Unaudited Condensed Consolidated Financial Information of EADS N.V. for the first quarter 2006

Unaudited Condensed IFRS Consolidated Income Statements	2
Unaudited Condensed IFRS Consolidated Balance Sheets.....	3
Unaudited Condensed IFRS Consolidated Cash Flow Statements.....	4
Unaudited Condensed IFRS Consolidated Statements of Changes in equity attributable to equity holders of the parent and minority interests.....	5
Explanations to the Unaudited Condensed IFRS Consolidated Financial Statements as at March 31st, 2006.....	5
1. The Company.....	5
2. Accounting policies.....	5
3. Changes in the consolidation perimeter of EADS.....	7
4. Segment information.....	7
5. EBIT pre goodwill impairment and exceptionals.....	8
6. Significant income statement items.....	9
7. Significant balance sheet items.....	9
8. Significant cash flow items.....	12
9. Contingencies.....	12
10. Number of shares.....	12
11. Earnings per share.....	12
12. Related party transactions	13
13. Number of employees	14
14. Subsequent events	14

Unaudited Condensed IFRS Consolidated Income Statements

	January 1 - March 31, 2006		January 1 - March 31, 2005		Deviation	
	M €	%	M €	%	M €	%
Revenues	9,083	100	7,005	100	2,078	30
Cost of sales	-7,390	-81	-5,529	-79	-1,861	34
Gross margin	1,693	19	1,476	21	217	15
Selling, administrative & other expenses	-575	-6	-535	-8	-40	7
Research and development expenses	-536	-6	-422	-6	-114	27
Other income	156	1	38	1	118	311
Share of profit from associates and other income from investments	25	0	67	1	-42	-63
Profit before finance costs and income taxes	763	8	624	9	139	22
Finance costs	-62	0	-2	0	-60	3,000
Income taxes	-210	-2	-212	-3	2	-1
Profit for the period	491	6	410	6	81	20
Attributable to:						
Equity holders of the parent (Net income) *)	516	6	410	6	106	26
Minority interests *)	-25	0	0	0	-25	100
Earnings per share	€		€		€	
Basic *)	0.65		0.52		0.13	
Diluted *)	0.64		0.51		0.13	

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

Unaudited Condensed IFRS Consolidated Balance Sheets

	March 31, 2006		December 31, 2005		Deviation	
	M €	%	M €	%	M €	%
Non-current assets						
Intangible assets	11,092	16	11,052	16	40	0
Property, Plant and Equipment	13,911	19	13,951	19	-40	0
Investments in associates	1,930	3	1,908	3	22	1
Other investments and long-term financial assets	1,735	2	1,938	3	-203	-10
Non-current other assets	3,502	5	3,610	5	-108	-3
Deferred tax assets	2,512	4	2,557	4	-45	-2
Non-current securities	1,239	2	1,011	1	228	23
	35,921	51	36,027	51	-106	0
Current assets						
Inventories	16,505	23	15,425	22	1,080	7
Trade receivables	4,564	6	4,802	7	-238	-5
Other current assets	4,567	7	3,675	5	892	24
Current securities	34	0	29	0	5	17
Cash and cash equivalents	9,451	13	9,546	14	-95	-1
	35,121	49	33,477	48	1,644	5
Non-current assets classified as held for sale	0	0	881	1	-881	-100
Total assets	71,042	100	70,385	100	657	1
Total equity						
Equity attributable to equity holders of the parent						
Capital Stock	822	1	818	1	4	0
Reserves	9,969	14	9,371	13	598	6
Accumulated other comprehensive income	4,196	6	3,982	6	214	5
Treasury shares	-479	-1	-445	0	-34	8
	14,508	20	13,726	20	782	6
Minority interests	158	0	176	0	-18	-10
	14,666	20	13,902	20	764	5
Non-current liabilities						
Non-current provisions	6,557	9	6,879	10	-322	-5
Long-term financial liabilities	4,027	6	4,189	6	-162	-4
Deferred tax liabilities	2,525	4	2,376	3	149	6
Other non-current liabilities	11,264	16	11,295	16	-31	0
	24,373	35	24,739	35	-366	-1
Current liabilities						
Current provisions	2,611	4	2,727	4	-116	-4
Short-term financial liabilities	805	1	908	1	-103	-11
Liability for puttable instruments	3,500	5	3,500	5	0	0
Trade liabilities	6,975	10	6,634	10	341	5
Current tax liabilities	210	0	174	0	36	21
Other current liabilities	17,902	25	17,739	25	163	1
	32,003	45	31,682	45	321	1
Liabilities directly associated with non-current assets held for sale	0	0	62	0	-62	-100
Total equity and liabilities	71,042	100	70,385	100	657	1

Unaudited Condensed IFRS Consolidated Cash Flow Statements

	January 1 - March 31,	January 1 - March 31,
	2006	2005
	M €	M €
Profit for the period attributable to equity holders of the parent (Net income) *)	516	410
Profit attributable to minority interests *)	-25	0
<i>Adjustments to reconcile profit for the period (net income) to cash provided by operating activities</i>		
Depreciation and amortization	345	360
Valuation adjustments and CTA release	23	-34
Change in deferred taxes	150	-41
Results of disposal of non-current assets	-258	-66
Results of companies accounted for by the equity method	-23	-63
Change in current and non-current provisions and current tax assets / liabilities	107	289
Change in other operating assets and liabilities	-603	459
Cash provided by operating activities	232	1,314
- Purchase of intangible assets, PPE	-501	-557
- Proceeds from disposals of intangible assets, PPE	35	10
- Acquisitions of subsidiaries (net of cash)	-9	0
- Proceeds from disposals of subsidiaries (net of cash)	81	54
- Payments for investments in associates and other investments and long-term financial assets	-83	-128
- Proceeds from disposals of associates and other investments and long-term financial assets	453	135
- Increase in equipment of leased assets	-35	-29
- Proceeds from disposals of leased assets	19	19
- Increase in finance lease receivables	-5	-196
- Decrease in finance lease receivables	15	19
Disposals of non-current assets classified as held for sale	161	0
Change of securities	-227	-101
Change in cash from changes in consolidation	0	11
Cash used for investing activities	-96	-763
Change in long-term and short-term financial liabilities	-265	117
Capital increase	76	2
Purchase of treasury shares	-34	-203
Cash used for financing activities	-223	-84
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents	-8	4
Net (decrease) increase in cash and cash equivalents	-95	471
Cash and cash equivalents at beginning of period	9,546	8,718
Cash and cash equivalents at end of period	9,451	9,189

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

As of March 31st, 2006, EADS' cash position (stated as cash and cash equivalents at end of period in the unaudited consolidated cash flow statements) includes 1,119 M € (1,202 M € as of December 31st, 2005) representing the amount Airbus has deposited at BAE Systems. Additionally included are 431 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.

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	76		76
Profit for the period	516	-25	491
OCI	214		214
Purchases of treasury shares	-34		-34
Others	10	7	17
Balance at March 31, 2006	14,508	158	14,666
Balance at January 1, 2005, adjusted	16,210	144	16,354
Capital Increase	2		2
Profit for the period *)	410		410
OCI *)	-1,031	-1	-1,032
Purchases of treasury shares	-203		-203
Others	10		10
Balance at March 31, 2005	15,398	143	15,541

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

Explanations to the Unaudited Condensed IFRS Consolidated Financial Statements as at March 31st, 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"; 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 have 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. Accordingly, 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 is such a written put option. As such 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 is now to be regarded as financial liability in the EADS Consolidated Financial Statements, to be stated at fair value. The liability for the put option has been measured by applying a choice of different valuation techniques, based on best estimates currently available, and is presented in a separate line of the EADS Consolidated Balance Sheet "Liability for puttable instruments".

Following IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the adoption of revised IAS 32 is treated as a change in accounting policy firstly effecting EADS' Consolidated Financial Statements as of December 31st, 2005 with corresponding adjustments to the prior period presented here. The historical minority interests for BAE Systems' 20% stake in Airbus at the time of the business combination in 2001 have 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 years dividend payments to BAE Systems have been treated as partial repayments, thus consequently reducing the liability for puttable instruments. All changes to the fair value have been treated as contingent consideration in a business combination in accordance with IFRS 3 "Business Combinations" 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 quarter 2006 are not material to the unaudited 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.

Unaudited Condensed Consolidated Financial Information for the three-month period ended March 31, 2006

- *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 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
Three months ended March 31, 2006								
Revenues	6,362	822	656	1,000	493	330	-580	9,083
Research and development expenses	-449	-3	-17	-44	-12	-2	-9	-536
EBIT pre goodwill imp. and exceptionals (see definition below)	681	9	26	35	0	-4	33	780
Three months ended March 31, 2005								
Revenues	4,989	108	519	925	516	231	-283	7,005
Research and development expenses	-345	-5	-16	-37	-9	-2	-8	-422
EBIT pre goodwill imp. and exceptionals (see definition below)	628	-6	13	-35	-6	-2	65	657

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- Mar. 31, 2006	January 1- Mar. 31, 2005
Profit before finance costs and income taxes	763	624
Fair value adjustments	17	33
EBIT pre goodwill impairment and exceptionals	780	657

6. Significant income statement items

Revenues of 9,083 M € (first quarter 2005: 7,005 M €) increase by 30 % mostly due to Airbus, MTA and Eurocopter.

The **Gross Margin** increases by +217 M € to 1,693 M € compared to 1,476 M € in the first quarter 2005. The increase mainly results from Airbus (+148 M €).

Research and development expenses of 536 M € (first quarter 2005: 422 M €) mainly increase because of the A350 program and to a lower extent from the A380 program. Moreover, EADS capitalized 49 M € of development costs for A380 in the first quarter 2006 (in the first quarter 2005: 52 M €).

Other income increases by +118 M € to 156 M €, due to the capital 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 25 M € (first quarter 2005: 67 M €) is mainly influenced by the result of Dassault Aviation of 24 M € (first quarter 2005: 60 M €). The result in the first quarter 2005 of Dassault additionally included positive 2004 IFRS-catch up adjustments amounting to +32 M €.

Finance costs deteriorate to -62 M € (first quarter 2005: -2 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 -29 M € (first quarter 2005: -57 M €), mainly due to a higher net cash position and customer financing at Airbus.

Income taxes of -210 M € (first quarter 2005: -212 M €) result in an effective income tax rate of 30 % (first quarter 2005: 34 %), positively impacted by a tax-free capital gain from the sale of LFK GmbH and TDW GmbH to MBDA Group.

Loss for the period attributable to minority interest of -25 M € (first quarter 2005: 0 M €) mainly relates to an accounting 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 516 M € (first quarter 2005: 410 M €). The profit for the first quarter 2005 was adjusted due to the retrospective application of revised IAS 32 by an amount of +82 M €.

7. Significant balance sheet items

Non-current assets

Intangible assets of 11,092 M € (prior year: 11,052 M €) include 10,166 M € (prior year: 10,167 M €) of Goodwill. It mainly stems from Airbus (6,988 M €), Defence & Security Systems (2,468 M €), Space (559 M €) and Eurocopter (111 M €). The annual impairment tests, which were performed at the end of the prior year, did not lead to any impairment.

Eliminating foreign exchange-rate effects of -87 M €, **property, plant and equipment** increase by +47 M € to 13,911 M € (prior year: 13,951 M €), including leased assets of 2,276 M €. Most of the increase is attributable to Space (+74 M €), partly offset by a decrease in Defence (-26 M €) and the Airbus Division (-16 M €). Property, plant and equipment comprises "Investment property" amounting to 129 M € (prior year: 134 M €).

Investments in associates of 1,930 M € (prior year: 1,908 M €) mainly increases due to the change in the equity investment of Dassault Aviation, amounting to 1,891 M € (prior year: 1,867 M €).

Other investments and long-term financial assets of 1,735 M € (prior year: 1,938 M €) are allocated to Airbus in the amount of 993 M € (prior year: 1,242 M €), mainly concerning the non-current portion of aircraft financing activities with a foreign exchange-rate effect of -24 M €.

Non-current other assets mainly comprise “Non-current financial instruments” and “Non-current prepaid expenses”. The decrease by -108 M € to 3,502 M € (prior year: 3,610 M €) is mainly caused by the variation of the non-current portion of fair values of financial instruments and the reclassification to “Other current assets” of the fair value of those contracts becoming current. Non-current prepaid expenses increase by +44 M €.

Deferred tax assets of 2,512 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 2,625 M € (prior year: 2,762 M €), in current other assets (1,424 M €, prior year: 1,191 M €), in non-current provisions (277 M €, prior year: 472 M €) and in current provisions (323 M €, prior year: 449 M €), which corresponds to a net fair value of 3,449 M € (prior year: 3,032 M €). The volume of hedged US dollar-contracts has risen from 47.1 billion US dollar to 51.9 billion US dollar and the US dollar exchange rate became less favourable (USD / € spot rate of 1.21 at March 31st, 2006 vs. 1.18 at December 31st, 2005). The average US dollar hedged rate for the hedge portfolio of the Group as at March 31st, 2006 moved from 1.12 as at December 31st, 2005 to 1.14 as at March 31st, 2006 (US dollar / € rate respectively).

Current assets

Inventories of 16,505 M € (prior year: 15,425 M €) increase by 1,099 M € (without foreign exchange revaluation of -19 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 (+431 M €)), the progress of several serial production programs in Eurocopter (+243 M €) and Defence (+115 M €). Military Transport decreased mainly due to revenue recognition of Milestone M7 concerning the A400 M program.

The decrease in **trade receivables** by -238 M € to 4,564 M € (prior year: 4,802 M €) comes to a large extent from normal trade fluctuations in Defence (-245 M €) and Eurocopter (-116 M €), partly offset by Airbus (+149 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 892 M € to 4,567 M € (prior year: 3,675 M €) is caused in the amount of +233 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 +553 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 March 31st, 2006; prior period: 881 M €).

Cash and cash equivalents decrease from 9,546 M € to 9,451 M €.

Total equity

Equity attributable to equity holders of the parent (including treasury shares) amounts to 14,508 M € (prior year: 13,726 M €), mainly resulting from the profit for the period (Net income) of +516 M € and an increase in OCI of +214 M €, primarily resulting from changes in fair values as well as consumption of derivative financial instruments, partly offset by purchases of treasury shares of -34 M €.

Minority interests of 158 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 6,557 M € (prior year: 6,879 M €) comprise the non-current portions of pension provisions with a decrease of -101 M € to 3,799 M € and other provisions, decreasing by -221 M € to 2,758 M €. Other provisions include among others aircraft financing activities with a decrease of -30 M € to 1,123 M € and provisions for derivative financial instruments according to IAS 39 with a decrease of -195 M € to 277 M €.

Long-term financial liabilities of 4,027 M € (prior year: 4,189 M €), excluding foreign exchange-rate effects of -62 M €, decrease by -100 M €.

Deferred tax liabilities of 2,525 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 decrease by -31 M € to 11,264 M € (prior year: 11,295 M €). They mainly include the non-current portion of European Government refundable advances amounting to 5,118 M € (prior year: 4,950 M €) and non-current customer advance payments received of 4,804 M € (prior year: 4,911 M €). The main part of non-current deferred income of 1,249 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 -116 M € to 2,611 M € (prior year: 2,727 M €) and comprise the current portions of pensions (207 M €) and other provisions (2,404 M €, prior period: 2,507 M €). The decrease mainly reflects the revaluation of derivative financial instruments according to IAS 39 (-126 M €).

Short-term financial liabilities of 805 M € (prior year: 908 M €), excluding foreign exchange-rate effects of -8 M €, decrease by -95 M €.

EADS has adopted in 2005 revised IAS 32 and accounts for a **liability for puttable instruments** of 3,500 M € (prior year: 3,500 M €) for the 20 % interest of BAE Systems in Airbus.

Without considering foreign exchange rate effects of -17 M €, **trade liabilities** increase by +358 M € to 6,975 M € (prior year: 6,634 M €), mainly coming from Airbus (+524 M €), partly offset by Defence (-143 M €).

Other current liabilities include "Current other liabilities" and "Current deferred income". Without considering foreign exchange rate revaluations of -6 M €, they increase by +169 M € to 17,902 M € (prior year: 17,739 M €). Other current liabilities mainly comprise the current portion of customer advance payments of 14,367 M € (prior year: 14,078 M €).

8. Significant cash flow items

Cash provided by operating activities decreases by -1,082 M € to 232 M € (first quarter 2005: 1,314 M €). This decrease mainly reflects the negative variation in working capital (change in other operating assets and liabilities) of -603 M € (first quarter 2005: positive variation of 459 M €). This primarily results from an increase in inventories, partly offset by positive effects of trade liabilities / receivables and ongoing customer advance payments.

Cash used for investing activities improves by +667 M € to -96 M € (first quarter 2005: -763 M €). The outflow is mainly caused by Airbus and Skynet V activities, nearly offset by sell-downs of aircraft financing exposure of Airbus.

Cash used for financing activities decreases by -139 M € to -223 M € (first quarter 2005: -84 M €). The outflow mainly corresponds to repayments of financial liabilities as well as purchases of treasury shares.

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, for so long as BAES remains a shareholder, 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 799,933,291 and 790,727,881 as of March 31st, 2006 and 2005, respectively. EADS' shares are exclusively ordinary shares with a par value of 1.00 €.

During the first quarter 2006, EADS repurchased 1,020,026 of its ordinary shares (in the first quarter 2005: 8,950,275) in conjunction with the share-buyback program.

3,812,891 new shares (first quarter 2005: 127,862 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 quarter 2005 was adjusted due to retrospective application of revised IAS 32 in 2005 with an amount of +82 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 March 31, 2006	January 1 to March 31, 2005
Net income attributable to shareholders	516 M €	410 M €
Weighted average number of ordinary shares outstanding	795,283,531	795,573,328
Basic earnings per share	0.65 €	0.52 €

The effect from the retrospective application of IAS 32 (revised) on basic earnings per share amounts to an increase of 0.10 € in the first quarter 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 during the first quarter 2006 exceeded the exercise price of the stock options under the 1st, 2nd, 3rd, 4th, 5th and 6th stock option plans (in the first quarter 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. 7,953,755 shares (first quarter 2005: 4,627,286 shares) are considered dilutive according to IAS 33.

	January 1 to March 31, 2006	January 1 to March 31, 2005
Net income attributable to shareholders	516 M €	410 M €
Weighted average number of ordinary shares outstanding (diluted)	803,237,286	800,200,614
Diluted earnings per share	0.64 €	0.51 €

The effect from the retrospective application of IAS 32 (revised) on diluted earnings per share amounts to an increase of 0.10 € in the first quarter 2005.

12. Related party transactions

The Group has entered into various transactions with related companies in the first quarter 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 March 31st, 2006 is 114,203 as compared to 113,210 at December 31st, 2005.

14. Subsequent events

On May 12th, 2006, the EADS Board of Directors examined all the industrial options concerning EADS Sogerma Services. It asked the Board of EADS Sogerma Services to launch as quickly as possible the option it thought to be credible to secure the company's recovery and durability. This project implies developing activities with growth potential and shutting down of loss-making activities without profitability prospects. It will, of course, be supported by the industrial synergies and considerable input of aerospace workloads that may be envisaged by other entities, mainly Airbus. The EADS Board of Directors, aware of the fact that this project should lead to the close-down of the company's site in Mérignac, ensures that total Group solidarity comes into play with an ambitious social plan aiming at proposing an appropriate solution for everybody involved.

EADS has entered into consultations with BAE Systems on the potential sale of its 20 % stake in Airbus. On May 2nd, 2006, BAE Systems triggered a further step in the sale process by issuing a Put Option Intention Notice, a process contemplated in the Airbus Shareholders Agreement signed in 2001. Following completion of this consultation process, BAE Systems may - but is not obliged to - formally exercise its put option. There can be no certainty as to the result of this phase of the sale process, however the negotiations will now be governed by the guidelines within the Airbus Shareholders Agreement.

On April 4th, 2006, DaimlerChrysler and Lagardère SCA, two of EADS' core shareholders, have announced they entered into simultaneous transactions aimed at reducing by 7.5 % each their respective stakes in EADS. Daimler Chrysler has described its transaction as a forward sale agreement on approximately 61 million EADS shares with a group of international investment banks. According to the DaimlerChrysler Group, it has lent these shares to the banks in anticipation of the settlement of the forward sale. Lagardère SCA has announced it has issued Mandatory Exchangeable Bonds subscribed by IXIS CIB. In turn, IXIS CIB has sold forward a large majority of the underlying shares to a group of French institutional investors. DaimlerChrysler and Lagardère have noted that, under the shareholder agreements, the balance of control between the core shareholders in EADS' corporate governance remains unchanged.